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MANUAL OF POLITICAL ECONOMY.

MANUAL

OF

POLITICAL ECONOMY.

BY

HENRY FAWCETT, M.A. M.P.

FELLOW OF TRINITY HALL, AND PROFESSOR OF POLITICAL ECONOMY IN THE UNIVERSITY OF CAMBRIDGE.

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PREFACE TO THE THIRD EDITION.

ALTHOUGH the general arrangement of this book remains unaltered, yet in preparing this Edition, it has been found necessary to re-write considerable portions of many of the chapters. Some of the illustrations contained in the former editions are no longer apposite; others have been substituted in the place of these, for it is always desirable as far as possible to illustrate the principles of Political Economy by applying them to the discussion of passing events. Two new chapters have been added upon National Education, and the influence of the Poor Laws upon pauperism. During the last few years I have become convinced that none of the agencies for improving the condition of the poor can exert any great or permanent effect until the whole nation has been brought under the influence of a comprehensive system of education. The conviction has also been forced on my

mind that a great encouragement is given to pauperism by the right which every one in this country has to obtain parochial relief.

I believe it will be found that this edition has been so carefully revised that there is scarcely a page in which some improvement has not been introduced. I venture to express this opinion with the more confidence because in the labour of revision I have derived the most valuable assistance from my wife, who in applying herself to the work has shown the greatest care and assiduity. I also have to thank her for having pointed out many defects and some inaccuracies which had previously escaped my notice.

CAMBRIDGE,
October, 1869.

PREFACE TO THE FIRST EDITION

I HAVE often remarked that Political Economy is more frequently talked about than any other science, and that its principles are more frequently appealed to in the discussions of ordinary life. No science, however, is perhaps more imperfectly understood. I believe that profound mathematicians, or accomplished geologists and botanists, are far more numerous than real masters of the principles of Political Economy. Such a fact is somewhat surprising, when it is remembered that Political Economy must be appealed to, in order properly to discuss almost any political, financial, or social question. Sometimes it has no doubt happened, that people have not become generally familiarised with a science, because its principles have not been clearly explained. But Political Economy has never wanted able expounders. Adam Smith wrote the first systematic treatise on the subject, and his work will long continue to be read as a masterpiece of clear exposition. Mr. John Stuart Mill's treatise on 'The Principles of Political Economy' is perhaps the most remarkable work of that great author, and the book will be

remembered as amongst the most enduring literary productions of the nineteenth century. It is therefore necessary for me to explain the object I have had in view in writing the present work.

The end I hope to attain, I may briefly state to be this. I think that all who take an interest in political and social questions, must desire to possess some knowledge of Political Economy. Mr. Mill's treatise is so complete and so exhaustive, that many are afraid to encounter the labour and thought which are requisite to master it; perhaps, therefore, these may be induced to read an easier and much shorter work. I so well remember the great advantage which I derived from reading Mr. Mill's book, that I would not publish my own work if I thought that it would withdraw students from the perusal of a more complete treatise. I am, however, convinced that those who become acquainted with the first principles of Political Economy, will be so much struck with the attractiveness and importance of the science, that they will not relinquish its study.

I have not attempted to discuss all the principles of Political Economy in full detail; but I believe no important branch of the subject has been omitted; and I therefore think, that the principles which are explained in the present work will enable the reader to obtain a tolerably complete view of the whole science. In order to show how intimately Political Economy is connected with the practical questions of life, I have devoted a separate chapter to some subjects of great present interest; such, for instance, as Cooperative Societies—Strikes and Trades'-

Unions—and The Effects of the Recent Gold Discoveries. For the convenience of the ordinary reader, and especially for those who may use the book to prepare themselves for examinations, I have prefixed a very detailed summary of Contents, which may be regarded as an analysis of the work.

I cannot conclude these prefatory remarks, without acknowledging the kind assistance which I have derived from those who have verified my statistical facts; but I have especially to thank my friend, the Rev. Leslie Stephen, Fellow of Trinity Hall. He has given me many most important suggestions, and has carefully revised the work: the accurate and complete knowledge which he possesses of the science makes his revision peculiarly valuable.

The labour of writing these pages would have been much greater, if I had not been fortunate enough to have a most patient and excellent amanuensis in the youth who is to me so faithful an attendant.

TRINITY HALL, CAMBRIDGE,
Feb. 1863.

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Why we discussed the price of commodities before we considered the subject of money—Money provides a medium of exchange, thus obviating barter, and money also serves as a general standard of value—It is not necessary, but it is most convenient, that money should be made of the precious metals—Any substance may be chosen as a general measure or standard of value; if wheat was thus selected, the price of all commodities must be estimated in wheat—The substance which is chosen as money ought, as far as possible, to possess the following qualities: its value should be uniform; it should possess an intrinsic value of its own; it should contain a great value in small bulk—Gold and silver do not vary much in value, because the cost of obtaining these metals is not liable to any great changes, and, except on rare occasions, the supply of these metals is not subject to sudden fluctuations—The quantity of gold and silver which is used for other purposes besides being coined into money is comparatively small, and therefore the quantity of gold required for such purposes does not vary greatly—Gold and silver have always possessed an intrinsic value of their own, since no other substances are so well qualified for ornaments; the brightness of these metals gives them beauty; they can be long preserved, and their malleability makes them easily worked into artistic forms—These metals have always been scarce—Hence they possess the third requisite for money, since they contain great value in a small bulk—Copper money is used for the convenience of making small payments—The inconvenience of a double standard—If gold and silver are both made a standard of value, then this standard is subject to increased variations—The arrangements adopted by our own Mint explained—Gold is in our own country the only standard of value, since silver and copper money are merely made subsidiary coins

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CHAPTER VI. *On the Value of Money.*

'Value of money' is an ambiguous expression—It is popularly used to describe the current interest, as represented by the bank rate of discount—In Political Economy value of money means the purchasing power of money—Hence the value of money increases as general prices decline, and *vice versâ*—The value of gold in bullion must be the same as the value of gold when converted into money—The fallacy of considering that the value of gold has remained unchanged, because the price of gold never varies—The value of money is determined by the same laws as those which regulate the value or price of all mineral produce—Gold is devoted to two distinct purposes: first, it is coined into money; secondly, it is employed for purposes of art and manufacture—The quantity of gold required for the last of these two purposes does not vary greatly from year to year—Hence any increase in the quantity of gold produced must be almost entirely converted into coin—The amount of money any country

requires partly depends upon the amount of its wealth, and partly upon the number of times which any commodity is bought and sold for money —The amount of money which a country keeps in circulation is no measure of its national wealth—A country requires a greater amount of money in circulation as its wealth and population increase—In the case of an ordinary commodity, the demand is equalised to the supply, by either a rise or fall in the price of the commodity;—But the price of gold is a meaningless expression; hence, in the case of money, the demand is equalised to the supply by a rise or fall in the value of the precious metals —The demand for a commodity varies with its price, but the ratio of this variation cannot be precisely defined, for it varies greatly with different commodities—This last proposition illustrated by examples—The demand for the precious metals varies *cæteris paribus*, precisely in the inverse ratio of their value, if uniformity in general prices is preserved—If we suppose that the precious metals are solely employed as money, a nation has a demand for a greater or less amount of money, in order to maintain general prices unchanged—Hence, if the wealth and population of a country increase, the demand for money will increase—It is most important that the value of gold, or, in other words, that general prices should fluctuate as little as possible—The supply of gold is *cæteris paribus* increased if the value of gold advances, because gold-mining becomes more profitable—But an increase in the value of gold is caused by a deficiency in its supply—Hence an increased demand for gold stimulates an increased supply; consequently the demand is equalised to the supply, and thus a tendency is brought into operation to preserve uniformity in general prices—This process of equalisation is analogous to that which takes place with regard to every other commodity—In the absence of any counteracting circumstances, the value of the precious metals must increase if the cost of obtaining them is increased, and *vice versâ*, their value must decrease if the cost of obtaining them is diminished by the discovery of more productive mines ..... PAGES 311—326

CHAPTER VII. *Foreign Commerce or International Trade.*

Foreign commerce enables the capital and labour of a country to be applied to that branch of industry for which it possesses special advantages—If two countries produce commodities at a different relative cost, foreign trade becomes profitable to them both—Hence, it is possible that foreign trade may be profitable to two countries, although all the commodities exchanged might be produced cheaper in one country than in the other —The bargain of international trade is adjusted by equalising the supply of a commodity to the demand for it—The profit arising from foreign commerce is shared between two trading countries in the inverse ratio of the demand which each has for the commodities imported from the other—If England exports iron to France, and imports wheat, and if the cost of producing iron is cheapened in England, but not in France, the terms of the international trade must be again adjusted, so as to equalise the demand to the supply—It is quite possible, under the circumstances just supposed, that the cost to France of the iron she imports may be reduced by an amount exceeding the diminution in the cost of producing this iron in England—The gain which results from international trade is distributed amongst the consumers of the commodities imported, and cannot be appropriated, either by the

producers of exported commodities, or by the merchants who carry on foreign trade—Foreign trade will generally cause the price of a commodity which is exported to rise in the home market—The home producers of a commodity may temporarily suffer loss, if the price of a commodity is reduced in consequence of foreign importations—But inequalities in the rate of profit in any industry will always be ultimately removed by the competition of capital—The rent of land may be permanently reduced, if agricultural produce is cheapened by foreign importations—Foreign trade affects the price, both of the imported and exported commodity—The equation of international trade, therefore, requires a very complicated process of adjustment, since the price both of the imported and exported commodity must be such as to equalise the supply to the demand for these commodities, in both the trading countries—Foreign commerce raises the price of the commodities exported, and reduces the price of those imported—Hence labourers may be injured if the ordinary necessaries of life are exported in exchange for commodities which the labourers do not largely consume—The labourers will generally be compensated for this possible injury by an increase in their money wages, because foreign commerce economises labour and capital, and therefore enables higher wages to be paid without encroaching upon profits—A consideration of the arguments in favour of protection which are current in the United States and in Australia—The fallacy explained of what is called 'reciprocity of free trade'—The cost of exporting and importing commodities may be borne in different ratios in two different countries—The greatest portion of this cost of carriage would be borne by the country whose demand is least diminished by the commodity being increased in price, in consequence of the cost of carriage—If it is assumed that there is perfect free trade between the two countries, then there cannot be a greater difference in the price of any commodity in the two countries than is equivalent to the cost of carriage—The principles investigated in this chapter are equally true when a great number of commodities are interchanged, and when foreign commerce is not restricted to two countries..... PAGES 327—352

CHAPTER VIII. *On the Transmission of the Precious Metals from One Country to Another.*

In a note at the beginning of this chapter, it is shown that the value of the precious metals in bullion and in money is the same, when the Government makes no charge for coinage—The precious metals are distributed in two ways: first, they are exported from the mining countries as an ordinary commodity of commerce; secondly, they are transmitted from one country to another in the form of money—The value of the precious metals is regulated by laws identical with those which regulate the value of any other commodity which is exchanged in foreign commerce—The precious metals are constantly transmitted in the form of money from one country to another, because, in the first place, they contain great value in a small bulk, and secondly, every kind of wealth can be purchased by gold and silver—England is to a great extent the emporium of gold; a great portion of the gold which is produced in Australia, California, &c., is in the first instance sent to her, and then distributed by her to the various countries of the world—Although England imports and exports so much gold, yet the value of gold is kept in England approximately constant—

This constancy in value is maintained, because it is impossible to obtain an undue amount of the precious metals, without producing a decline in the value of gold, or, in other words, a rise in general prices—If general prices rise in one country comparatively more than in another, the balance of trade is at once disturbed; the exports from the country are diminished, and her imports increased, and a drain of specie, consequently, at once commences—There is therefore a constant agency at work, which causes the precious metals to be equally distributed over the world

PAGES 353—359

CHAPTER IX. *Foreign Exchanges.*

The commodities bought and sold in foreign commerce are usually paid for by bills of exchange; this course is adopted in order as far as possible to obviate the transmission of specie—A bill of exchange is a written acknowledgment given to a creditor, that a debt due to him shall be paid on a particular day—If the exports sent to a particular country are equivalent in value to the imports received from a particular country, Bills of Exchange enable the transmission of specie to be as completely obviated as if the exports were exchanged for the imports by barter—If the imports from France exceed in value the exports from England to France, English merchants will have a greater demand for bills drawn upon France, than French merchants for bills drawn upon England—Bills drawn upon France will consequently be at a premium—When this is the case, the exchange is said to be against England, and in favour of France—A country has consequently to export specie when the exchange is against her—Hence the expressions 'favourable' and 'unfavourable' exchange are remnants of the mercantile system—If the exchange is against a country, its money will be depreciated in value, when compared with the money of a country which has a favourable exchange—When a scarcity of gold is anticipated, bills may rise to a greater premium or fall to a greater discount than is represented by the cost of carriage—As an example, bills drawn on France rose ten per cent. when it was known that Napoleon had landed from Elba—If an unfavourable exchange always required specie to be actually exported, the premium upon bills would always closely approximate to the cost of transmitting specie—There are, however, constant fluctuations in the premium upon bills, because an unfavourable exchange may be rapidly succeeded by a favourable exchange—An unfavourable exchange cannot be of long continuance, because it exerts a tendency to diminish the imports, and to increase exports—An export of the precious metals, as ordinary commodities of commerce, does not necessarily denote an unfavourable exchange ..... 360—369

CHAPTER X. *The Functions of Credit.*

Credit signifies borrowing and lending, and therefore implies confidence—It is usually more convenient to give credit in the form of money—Credit is said to be good when there is confidence in those who borrow—The credit of an individual, as well as the credit of a state, is measured by the rate of interest paid for money borrowed—The oft-repeated maxim, that credit is capital, is a meaningless expression—Credit greatly assists the production of wealth, because wealth which is employed as capital is

often borrowed from those who would not themselves employ productively the wealth which they lend—The deposit accounts which are held by banks illustrate the extent to which credit increases the capital of a country—Large public works, such as railways, could not be carried out if credit did not exist; the capital which they require is so large, that it must be borrowed from a great number of individuals—The greatest benefit which England can confer on India, is to establish credit in that country—Credit enables all the wealth which is saved to be applied to the most productive purposes ..... PAGES 370—377

CHAPTER XI. *The Influence of Credit on Prices.*

Bills of exchange, bank-notes, and cheques may be regarded as instruments of credit—A bill of exchange is a written promise to pay a certain amount at a fixed date; a bank-note is a promise to pay a certain amount upon demand—Different bankers exchange their cheques at the Clearing House, and the convenience of this course is great—Bills of exchange, bank-notes, and cheques provide substitutes for money—Hence the influence exerted by credit on prices—When commodities are bought and sold by bills of exchange, the use of money is as completely dispensed with as if commodities were exchanged by barter—If bills of exchange were not employed, one of two things would happen; either the money in circulation must be increased, or specie would rise in value—It is credit, and not the particular form in which credit is given, which provides a substitute for money—Book credits, for instance, although not existing in a transferable form, may provide as complete a substitute for money as bills of exchange—Bills of exchange cause the amount of credit which is given in a country to be much greater than it would be if book credits were alone employed—A bank-note is a more complete substitute for money than bills of exchange, because if bank-notes did not exist, money must be employed in most of the transactions which are carried on by bank-notes—If bank-notes did not exist, either more money must be brought into circulation or general prices would decline—A country requires a smaller amount of money if it employs bank-notes; hence bank-notes economise wealth, because gold and silver are valuable commodities—No effect is exerted on prices by bank-notes, if they simply occupy the place of a corresponding amount of money—General prices are advanced by a bank-note circulation if bank-notes are added to the circulation without causing a corresponding amount of money to be withdrawn—Credit increases the purchasing power of each individual, and in this way exerts a great effect on prices—The effect, though great, is, however, temporary—Credit purchases may enormously increase the demand for a commodity, and hence raise its price—This rise in price is, however, temporary, because the price of all commodities ultimately approximates to their cost of production—The great purchasing power which may be exerted by credit, illustrated by the tea speculations in 1839—The provisions of the Bank Charter Act explained—Speculative purchases which lead to a panic are not in the first instance made by bank-notes; hence restrictions upon the issue of bank-notes do not prevent commercial panics—In the latter stages of a panic, the demand for bank-notes and other money increases because credit collapses—Hence it has been always necessary to suspend the Bank Charter Act after a panic has continued some time—When trade is in its ordinary state, the bank-note circulation would not be increased if the Bank Act were re-

pealed—The impression that the Bank Act will be suspended in a commercial crisis, increases the uncertainty and distrust prevalent at such a period—Creditors may be defrauded, and general prices may be raised without limit, if inconvertible notes are made a legal tender—These serious consequences do not occur if inconvertible notes are not made a legal tender ..... PAGES 378—398

CHAPTER XII. *On the Rate of Interest.*

The current rate of interest is determined by the price of Funds, because these securities involve no risk—In this chapter, two questions have to be investigated; in the first place, the causes which determine the normal or average current rate of interest must be explained, and secondly, the daily fluctuations in the current rate of interest must be accounted for—The current rate of interest must be such as will equalise the demand for to the supply of loans—The average current rate of interest may be affected by national character, because some nations are more prudent, and therefore satisfied with a smaller rate of interest than others—If the average rate of profit advances, the current rate of interest must also rise—The rate of profit depends on the cost of labour; the cost of labour increases if food becomes more expensive—If the current rate of interest advances, the price of securities and the price of land will decline—The causes which advance the rate of interest generally exert an influence to diminish the rent of land—Different rates of interest may prevail in different countries, because the people of one country will not invest their capital in another country without receiving some additional remuneration—Temporary fluctuations in the rate of discount or in the rate of interest are caused by variations in the demand for money—An increase in the demand for money is generally produced by contraction of credit 399—408

CHAPTER XIII. *On the Tendency of Profits to fall as a Nation advances.*

Adam Smith erroneously supposed that the rate of profit depended upon general prices—A rise or fall in general prices need not necessarily affect the rate of profit—Adam Smith was led into the error above alluded to by misinterpreting the phenomenon connected with the depression and activity of trade—The average rate of profit is partly the cause and partly the effect of the amount of capital accumulated—When a country advances in population and wealth, two agencies operate to reduce profits: in the first place, food becomes more expensive, and the cost of labour is increased; and secondly, a greater capital is accumulated in proportion to the profits which can be realised upon it—The decline in the rate of profit in England retarded by the great amount of capital which we invest in foreign countries—Industrial improvements, and the importation of cheap food, may prevent the cost of labour increasing as a country advances in population—This explains the fact that the rate of profit has not declined in England, although her population and wealth have both greatly increased—A nation is said to be in a stationary state, when the rate of profit is so low that the accumulation of capital does not further increase—The stationary state was more likely to be attained in the last century than at the present time—Surplus capital is absorbed, or rather destroyed,

in a commercial panic; thus an influence is exerted to sustain the average rate of profit—A high rate of profit prevails in a colony, because fertile land is abundant—Agriculture must be the staple industry of a young colony—The returns to agriculture must be great when only the most fertile soils need be cultivated—Hence, in a colony, wages and profits are both generally high ..... PAGES 409—420

CHAPTER XIV. *Of Over-production or Excess of Supply.*

Malthus, Chalmers, and Sismondi feared over-production, and therefore affirmed that some moral restraint ought to be exercised with regard to the accumulation of capital—Over-production has two meanings; it may either signify that commodities produced cannot be sold at remunerative prices, or it may signify that commodities are produced which are really not wanted—Over-production, in its first signification, will cause the profits of a particular trade to be low: the trade is then said to be dull or depressed, but such depression can only be temporary—The Lancashire Cotton Trade would have exhibited this first kind of over-production, if the American Civil War had not occurred—This excessive supply of cotton goods would not be wasted; they would be readily purchased, if sold at sufficiently low prices—The accumulation of capital may reduce profits, but never causes more commodities to be produced than can be consumed—If capital continues to be accumulated, the wages of labourers would be increased—As an extreme case, it may be supposed that wages are so much increased, that all the wants of the labourer are satisfied; if, then, his wages are still further increased, he will shorten his hours of toil ..... 421—426

CHAPTER XV. *On the Recent Gold Discoveries.*

Predictions as to the rapid depreciation in the value of gold have not been realised—It is still difficult to decide whether gold has been depreciated, but the preponderance of evidence is in favour of a depreciation of about 10 or 15 per cent.—The amount of gold England annually obtains from California and Australia exceeds by four times the amount she previously obtained from all sources combined—Only a small portion of this additional gold is employed in increasing England's gold currency—The gold which England imports must be devoted to one or more of the three following purposes: first, it may be employed in arts and manufactures; secondly, it may be coined and employed as money; thirdly, it may be re-exported to other countries to purchase commodities—The amount of gold devoted to the first purpose, though great, does not vary much from year to year; hence, any large and sudden increase in the supply of gold will not be absorbed by the first of the three modes described—As the wealth and population of a country increase, there will be a fall in general prices, unless a greater amount of money is brought into circulation—The amount of additional money which is required to preserve uniformity of prices cannot be precisely determined—A comparison of the present prices of commodities with the prices ten years since does not enable us to decide with certainty whether the value of gold has been depreciated by the recent discoveries—This uncertainty proves that the depreciation in the value of gold cannot as yet have been considerable—The absorp-

tion of these large supplies of gold without producing any marked depreciation in its value, conclusively demonstrates that gold must have greatly risen in value, if these additional supplies had not been forthcoming—The gold discoveries were made at a most opportune time; free trade was then causing our commerce to expand in a most remarkable manner, and unless the supply of gold had increased, this expansion of commerce could not have taken place without a great and sudden rise in the value of gold—The increased supplies of gold have been chiefly absorbed by India and China—The public works being constructed in India, and the great increase in our imports from China, render it necessary annually to export 12,000,000*l.* of the precious metals to the East—The greater part of this amount is silver, but still gold is indirectly absorbed—The silver is chiefly obtained from the currencies of France, and other countries, and a corresponding value of gold is required to take the place of this silver—Other countries whose trade is progressing have also absorbed gold by increasing their gold currencies—Whether gold is destined to be depreciated, mainly depends on the future condition of our eastern trade—A depreciation in the value of gold will inevitably occur, if the export of specie to the East should greatly diminish—The continuance of this export of specie is uncertain—Hence a depreciation in the value of gold is a possible contingency—This depreciation can be best guarded against by avoiding investments the interest of which is represented by a fixed money payment—Why the gold discoveries have exerted a special influence in promoting the prosperity of Australia—Gold-digging is not more profitable than other kinds of industry, but a gold discovery acts more powerfully than any other cause to attract labour and capital to a colony—Other kinds of industry in a young colony involve, in the first instance, great risks; a supply of labour must be insured, and much fixed capital has to be expended in constructing roads, &c.—These obstacles impede gold-digging less than any other industry ..... PAGES 427—444

BOOK IV.

TAXATION.

CHAPTER I. *On the General Principles of Taxation.*

Mr. Mill and others give to this portion of the subject the general title 'The Influence of Government'—We think it advisable to limit this portion of our subject to an enquiry into taxation—Adam Smith's four rules, or 'canons' of taxation are the following—1st. Taxation should be equal; 2nd. Taxation should be certain in its amount; 3rd. Taxes should be levied at the time and in the mode which causes the least inconvenience to the tax-payer; 4th. A tax ought to obtain for the Government as much as possible of the whole amount which is levied from the tax-payer—Equality of taxation is impracticable, if it means taxing people in proportion to their means; this illustrated by the case of two individuals possessing equal incomes, one of whom is married, the other is not—With the view of obtaining equality of taxation, it would be useless to attempt to tax people in proportion to the protection which they derive from

Government—The first principle of taxation is enunciated by Adam Smith in very ambiguous language; he affirms that when there is equality of taxation, people are taxed in proportion to their ability to pay—Equality of taxation will not be secured, if it is attempted to apply this principle to one special tax—Equality of taxation is best secured by a rough process of compensation ..... PAGES 447—456

CHAPTER II. *On the Income-tax.*

The proposal that temporary incomes should be taxed at a lower rate than permanent incomes is supported, by some persons, first upon arithmetical grounds, and secondly, upon the general principles of taxation—The arithmetical argument is conclusive, that temporary incomes ought to be taxed at the same rate as permanent incomes, if it is assumed that the income-tax is uniform in amount, and permanent—Temporary and permanent incomes ought to be differently rated, if the continuance of the income-tax could ever be restricted to a definite period—Experience proves that this is impossible—The difficulty and expense of collecting the income-tax would be greatly increased, if an equitable rating of temporary and permanent incomes should be attempted—It is generally affirmed that the income-tax ought to be so adjusted, that each person should contribute to it in proportion to his means—This principle, even if it could be carried out, would not necessarily secure equality of taxation; this proposition illustrated by considering the remission of the tax upon small incomes—Various other difficulties described, which render the adjustment of the income-tax almost impracticable—The incidence of a tax distinguishes the real from the nominal payer of the tax—The incidence of the income-tax will partly fall on the labourers, if any portion of the tax is paid out of capital—The wealth of a country may be seriously affected by an income-tax, if the tax diminishes the national capital—Hence, in India an income-tax would produce very serious consequences, because there capital is accumulated very slowly—In England an income-tax produces none of those serious consequences, since we always have a large surplus capital to invest in foreign countries—If the income-tax is remitted upon incomes less than 100*l.* a year, this amount ought to be deducted from all larger incomes, and only the remainder should be taxed—A graduated income-tax would be extremely pernicious—One serious inequality affecting the income-tax, is caused by the power which dishonest people have of evading it ..... 457—475

CHAPTER III. *Taxes on Commodities and other Indirect Taxes.*

Distinction between a direct and an indirect tax; the former is really paid by the person from whom it is levied; the latter is levied from one person, and paid by another—A tax is often made indirect by custom; for instance, the poor-rates are often paid by farmers, and are therefore an indirect tax—Poor-rates might be paid by the landlord; they would then be a direct tax—None of our taxes on commodities are protective—Taxes on commodities must be generally characterised by inequality, because they can rarely be made *ad valorem*—Taxes on commodities are generally certain in their amount, and therefore obey Adam Smith's

second rule—As far as the consumer is concerned, taxes on commodities are always paid at a convenient time, and therefore obey Adam Smith's third rule—Some taxes, such as the tax on hops, are obliged to be levied from the producer at a very inconvenient time—The convenience of Bonding Houses—Taxes on commodities ought, as far as possible, to be made consistent with Adam Smith's last rule—Customs duties are most inexpensive to levy in an island, because a land frontier is more difficult to protect against smuggling—Excise and customs duties should be confined to a few articles of consumption—The most serious objection against taxes on commodities is due to the fact that a tax increases the price of a commodity by an amount which exceeds the amount which the tax yields to the State—This objection ought to be, as far as possible, guarded against; hence a manufactured commodity ought to be taxed in preference to the raw material—A tax on a manufactured commodity is objectionable, because it necessitates the enforcement of vexatious regulations by Government officers—It is intended that import and excise duties should be paid by the consumers, but an export duty is supposed to be mainly paid by foreigners—This, however, rarely happens; such a duty usually diminishes the export trade of a country, and thus decreases her national wealth—It would be most disastrous for England to impose an export duty on silk goods, because, as far as this branch of industry is concerned, we should be unable in foreign commerce to compete with other countries—The theory of international trade proves the impolicy of protective duties—Landowners are the only class that can be permanently benefited by protective duties; the value of the natural monopoly which they possess may be artificially increased by protection—Protective duties cannot, in the long run, increase the profits of any class of traders, because the competition of capital equalises profits in different trades—The Corn Laws benefited the landowners, not the tenant-farmers—The increased prosperity of the country compensates landowners for the abolition of protective duties; this illustrated by the rise in the rent of land in this country since the passing of free trade—An industry artificially fostered by protection may be destroyed by free trade; but this cannot be ultimately a loss to a nation—A strong party in Australia are in favour of imposing protective import duties—They have supported this policy by some remark in Mr. Mill's Political Economy, in reference to an apparent exception which he makes in favour of protective duties in certain branches of industry in a young colony—A comparison between direct and indirect taxation useless—Each system has its peculiar disadvantages; hence equality of taxation is best secured by raising the revenue, partly by direct, and partly by indirect taxes..... PAGES 476—497

CHAPTER IV. *On the Land-Tax and Poor-Rates.*

The chief part of the revenue of India is raised by a land-tax—A land-tax is simply rent—A land-tax neither diminishes the profits of the cultivator nor increases the price of agricultural produce—If a land-tax exceeds a rack-rent in amount, the price of agricultural produce must rise, and therefore the consumers of this produce will be virtually taxed—The importation of produce will be encouraged if the land-tax exceeds a rack-rent; hence land will be thrown out of cultivation, and the land-tax will yield a smaller revenue—The land-tax in this country is small, because commuted at a fixed money payment—The tax-payers would have been benefited if the land-tax had not been thus commuted, but

had been fixed at a certain definite proportion of the value of the land—A tithe may be regarded as a rent-charge, and tithes neither diminish the profits of the cultivator nor affect the price of agricultural produce—The Tithe Commutation Act not quite fair to tithe-proprietors, because tithes are not affected by a rise in the price of stock—Agricultural improvements may be impeded if tithes are not commuted...PAGES 498—503

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The prevalence of pauperism in England—The allowance system exercises a pernicious influence by stimulating population—Labourers have been greatly injured by the law of settlement—The provisions of the new Poor Law of 1834 explained—A national poor rate is undesirable because it would lead to extravagance—Poor-rates ought to be partly a local and partly a national charge—An investigation into the incidence of poor-rates—Poor-rates when levied upon land fall upon the landowner—When levied upon trade premises they are partly a charge upon profits, and are partly paid by the consumers of commodities—When levied upon houses they fall jointly on the occupier of the house and on the owner of the land on which it is built—Parochial relief discourages prudential habits, and depresses wages—Considerations in favour of gradually abolishing parochial relief—The danger which would result if the state guaranteed employment to all applicants—An evil influence is often produced by private charity—It is generally wastefully administered—Charitable endowments ought to be devoted to education—Breakdown of the present poor law system—The effect of various agencies, such as national education, in diminishing pauperism—Out-door relief ought to be greatly restricted—State emigration is a doubtful and partial remedy for pauperism—Various means by which labourers can render themselves independent of parochial relief—Injury is inflicted on prudent labourers by parochial relief—Pauperism is encouraged by the present position of women—State interference with women's labour is unjust—The necessity of producing a marked improvement in the condition of one generation..... 504—533

POLITICAL ECONOMY.

BOOK I.

PRODUCTION OF WEALTH.

CHAPTER I.

INTRODUCTORY REMARKS.

Difficulty of the first elements of political economy.

ALL who have studied an exact science must have experienced the formidable difficulties which elementary chapters invariably present. The young mathematician may well be staggered at the discussions usually annexed to the enunciations of the laws of motion; the axioms in his Euclid, which he is told to believe are self-evident propositions, offer philosophic questions of such complexity, that they continue to form an arena upon which the subtlest intellects contend.

A definition of political economy, and an inquiry into the method of investigation that ought to be pursued in this science, involve considerations which are sure to perplex the beginner; but the young mathematician need not be driven away from his Euclid because philosophy has not decided whether axioms are intuitive truths, or truths learnt from experience; in a similar way, the student in political economy ought not to have his faith shaken in the truths of this science, because he has learnt beforehand that political economists still dispute upon questions of philosophic method.

We ask such a student to accompany us with an unbiassed mind; we will promise to lay before him truths of great interest and great importance; we will endeavour to render them intelligible to the ordinary intellect, and when such a body of truths has been accumulated in the student's mind, he will be in a position to understand the exact nature and scope of the science to which they belong.

Prejudices against

Although it is not advisable in this place to attempt a precise definition of political economy, yet it is necessary

BOOK I. CH. I.

political economy.

to give a general idea of the class of phenomena which this science investigates; it is all the more important to do this, because the vagueness of popular conceptions has generated a vast amount of prejudice towards political economy. Hardhearted and selfish are the stereotyped epithets applied to this science. Ill-defined antipathy is sure not to rest long suspended upon a mere abstract idea; it seeks some concrete object, and therefore the epithets applied to the science are speedily transferred to those who study it, and a political economist exists vaguely in the haze of popular ignorance as a hardhearted selfish being, who wishes to see everyone rich, but who has no sympathy with those higher qualities which ennoble the character of man. The error of this ignorant prejudice shall be abundantly exposed in these pages; but we will make a few preliminary remarks upon it, in order to convince the student that the political economist is not the harsh being generally portrayed, but that he possesses that information which tells him how to improve the lot of his fellow-men. He may therefore be the most useful of all philanthropists; because a mere desire to do good without any principles of guidance is ever liable to be a futile and a misdirected effort.

Political economy is primarily concerned with wealth,

Political economy is concerned with those principles which regulate the production, the distribution, and the exchange of wealth.

The first great work on political economy was called by Adam Smith 'The Wealth of Nations;' but political economy is concerned alike with individual and national wealth. Those who share the popular error above alluded to, make this inquiry, Has a nation no other mission to fulfil than to become rich? and should wealth be to the individual the one absorbing aim of life? But political economy never even gives colour to the suspicion that the creation and accumulation of wealth ought to be the great object either of a nation's or of an individual's existence. The springs of life's action are numerous; society is held together by a vast aggregation of motives and sympathies. Wealth is necessary to man's existence; a great portion of human exertion is stimulated by the necessity to labour, in order to procure the commodities which maintain life. When, therefore, we endeavour to consider the phe-

but does not ignore other motives than the desire for wealth.

nomena connected with the production and distribution of wealth, we do not wish, in a feeling of opposition, to ignore the other phenomena of man's social existence; we isolate this class of phenomena, because the necessities of scientific investigation demand it. Every social question, either directly or indirectly, involves some considerations of wealth, and therefore has an aspect from which it must be considered by political economy. Thus it may be proposed to extend to the whole nation the system of compulsory education, introduced by the Factory Acts. Political economy would point out how production in this country, and how the wages of the labouring classes, would be affected, by compelling every child under thirteen years of age, who might be employed in any kind of labour, to attend school a fixed number of hours per week. This is an aspect of the question which must and would be considered, but even if the political economist should prove that the production of commodities would be rendered more expensive, he might be the first to admit that such a loss of national wealth would be abundantly compensated by the increased intelligence of the labouring population.

Numerous other examples might be given which would still further prove the complete fallacy of the accusation which is so constantly brought against political economy, that it is a science which encourages selfishness and degrades the best feelings of human nature. If a political economist considers that the only aim and end of life is the accumulation of wealth, then the individual ought to be blamed, and not the science which he professes. Political economy if kept within its proper limits does not provide a code of social ethics which will enable us to decide what is right or wrong, and what is just or unjust. It is the business of political economy to explain the effect which any circumstance such as the imposition of a tax, or the enforcement of a particular landed tenure, will exert upon the production, the distribution, and the exchange of wealth; and it is therefore manifest that political economy cannot take account of various other consequences which may be independent of any considerations concerning wealth. Thus, to revert to our original illustration, the principles of political economy will enable us to ascertain in what manner the wages of labourers and the production

of wealth will be affected by a compulsory system of national education. Hence the department of this question which belongs to political economy is, as it were, separated from those other departments of the question which investigate whether or not the morality and the social happiness of the people are increased by a system of national education. It is therefore a fundamental error to suppose that political economy ever asserts that the higher motives which actuate human actions ought to be discarded in favour of wealth. Some writers on this science when discussing social questions may consider only that part of a subject with which political economy is concerned, and thus the error may be committed of establishing general conclusions from an incomplete investigation. Hence political economists have sometimes appeared to be harsh and narrow-minded, but it is as idle upon these grounds to accuse political economy of being selfish and hardhearted, as it would be to blame geology because an injudicious and enthusiastic geologist pretended to despise other branches of physical science.

It must moreover be borne in mind that although sentimental moralists may profess to sneer at wealth as one of the idle vanities of this world, yet there can be no doubt that, even in England, the great besetting evil of the nation is the poverty of the humbler classes, and that these people cannot make any great social advance until a decided improvement has taken place in their material condition.

Meaning of the word 'wealth.'

We have described political economy as a science which is concerned with the production, the distribution, and the exchange of wealth. But the meaning of wealth, though a word of every-day use, will not probably be adequately understood without some elucidation.

Wealth may be defined to consist of every commodity which has an exchange value.

Exchange value.

The necessity of the limitations introduced into this definition may be readily shown. The air we breathe is of course not only a want, but a necessity of life; yet it cannot be regarded as wealth, because its supply is unlimited, and it therefore has no exchange value. Water very generally can be obtained in an unlimited quantity, and therefore it is not wealth; but the population of a large town would soon absorb all the water which nature spon-

taneously provides, and therefore water must be supplied by artificial means. It then at once possesses an exchange value, and is justly considered to be wealth. Wealth, therefore, is not determined by the nature and quality of a commodity, but rather by the circumstances in which that commodity may be placed. A gallon of the water which flows from the springs at Amwell is not, there, wealth; it would be as valueless to sell as a cubic foot of air, because there, a supply of water can be as easily obtained as a supply of air; but that same water conveyed a few miles, to the metropolis, produces the large annual revenues of the New River Company.

The character of wealth may be also given to a commodity by the shifting caprice, or by the changing wants of man. It thus becomes evident that exchange value is the characteristic which stamps a commodity with the attribute of wealth.

Various amounts of wealth in different ages and countries.

The most striking variations in wealth are exhibited by the same nation in different ages, and by different nations in the same age. There was a time when England was as poor as any country which is now consigned to the wandering savage, and yet she possessed then those same natural resources which now so materially contribute not only to form but to sustain her present wealth. The richest seams of coal were unworked, but in those remote times her population was in a condition in which they could have no demand for coal, and therefore this article had no exchange value; and that commodity which is now so valuable, could not then be legitimately classed as wealth. Hence it is manifest that the social condition of a nation and the state of its civilisation determine to what extent natural resources may be classed as wealth.

Each stage through which progressive nations have advanced from barbarism to civilisation is preserved at the present time in some parts of the globe. The savage still exists who lives by hunting and fishing; the wandering Arabs are true types of the ancient nomad tribes whose flocks and herds were grazed on natural pastures without the aid of the large supply of food which would be yielded even to the rudest agriculture. The village communities of the East remain instructive examples of the patriarchal

type of life; the stereotyped condition of China exhibits the features of a remote civilisation. These great differences in wealth are partly due to physical causes, but they mainly depend upon social circumstances, and as far as they do so, form the appropriate topics of political economy. The mind of an Englishman so habitually contemplates progress, that it is difficult to keep in view how large a portion of the habitable globe is in an absolutely stationary state. It is the duty of the political economist to explain not only the conditions which determine progress in national wealth, but also the causes which tend to make the material state of a country either stationary or retrogressive.

Erroneous view of wealth.

The mercantile system.

It is even at the present day important to direct careful attention to an erroneous conception of wealth, which was universal until the appearance of Adam Smith's great work, about eighty years since. The error when once exposed may appear incapable of misleading a child, yet no error was ever more tenaciously clung to; it not only corrupted speculative science, but it infected the whole commercial policy of every European nation. These errors are associated with the policy which has received the name of the mercantile system. The essence of the mercantile system was to identify wealth with money. Now the use of money is one of the first signs which marks a nation's progress from barbarism towards civilisation. Societies even comparatively rude must be impressed with the necessity of adopting some medium of exchange. This will be readily understood by a cursory glance at the general functions which money fulfils. In the first place, money provides the measure by which to record the value of each commodity. If, for instance, it is known that a sack of wheat is worth twenty shillings, the value of the sack of wheat, compared with any other article, can be at once ascertained when the price of this last article is known. Money, moreover, is not only a universal measure of value, but is also a universal medium of exchange. A man may possess a store of wheat which he requires to exchange for various other commodities; money provides him with the machinery by which this can be readily effected. The wheat has simply to be sold for so much money, and with this money a certain amount of the other commodities required can be

purchased. But if the use of money did not provide a general medium of exchange, the whole transaction must be conducted by barter; thus, if the individual possessing the wheat required a coat, he would have to discover some one who was willing to exchange the coat he wanted for wheat. Every transaction would under these circumstances be conducted by barter. Commerce thus impeded could never develope, and society never advance beyond its primitive rudeness. But these important functions which money performs, engendered in men's minds the fallacies of the mercantile system. For the value of every commodity being estimated in money, and every commodity also when bought or sold being exchanged for money, men soon began to mistake the symbol for the reality, and nothing was regarded as wealth except money. A nation consequently tested the utility of its commercial transactions with other nations, by ascertaining whether the commerce caused money to flow into the country. The whole commercial policy of a nation was framed with the specific object of encouraging the greatest possible accumulation of the precious metals. No one would now profess adherence to the errors of the mercantile system, but we shall have abundant opportunities of showing that they are still the secret prompters of many a wide-spread fallacy. The consequences of the mercantile system will be further discussed in those chapters which treat of money.

These general remarks upon wealth will enable us at once to proceed to the consideration of the production of wealth, the first great division of political economy.

CHAPTER II.

THE REQUISITES OF PRODUCTION.

Requisites of production.

THE production of every species of wealth requires the application of man's labour. The forces of nature, acting upon the materials of which the earth is composed, have created products from which wealth is immediately derived. The seams of coal were deposited without any human agency; but the coal is not available to satisfy any of the wants of life until man's labour has dug this coal from the mine, and placed it in those situations in which it is required. But labour, in order to produce anything, must have some materials upon which to work. These are supplied by nature, and may be termed natural agents. The steam-engine, for example, is fashioned out of metals, deposited as the result of certain forces acting in remote geological ages.

Labour, natural agents,

Production, therefore, has manifestly two requisites—labour, and appropriate natural agents upon which this labour may work. But there is a third requisite, the necessity of which will, perhaps, not appear so self-evident. The casual observer might be very possibly satisfied to accept as sufficient the two requisites of production we have mentioned; for it might be said, Does not properly trained labour, acting upon suitable materials, suffice to produce the required commodity? But there is something which is requisite to this labour itself. The labourer must be fed. How can he be fed but by food which has been previously accumulated? This food also required the application of labour; therefore, since the labourer must be fed by previously accumulated food, a third requisite of production is suggested, for some of the results of past labour are required to be set aside to sustain the labourer whilst

and capital.

labouring. The third requisite of production, therefore, is a fund reserved from consumption, and devoted to sustain those engaged in future production. This fund is termed capital.

The early steps of a student in almost every science are met by certain obstacles; if he succeeds in surmounting these obstacles, his future progress seems to be insured. The young mathematician who obtains a firm grasp of the physical conceptions involved in the laws of motion, will comprehend with facility problems of apparently great mathematical complexity. The questions involved in considering the functions of capital, will test a man's capacity to master the principles of political economy. Success in the study of this science may be regarded as guaranteed to all who obtain a clear insight into the nature of capital.

Capital is the result of saving.

There are certain fundamental propositions concerning capital which should be kept steadily and constantly in view. One of these is as follows:—Capital is the result of saving. This saving may not be primarily prompted with a view of assisting future production. The results of labour, however, are not rendered immediately available for consumption: the ploughman who ploughs the soil must wait for months before the wheat which his labour contributes to produce, will be ready for human food; but the ploughman must be fed, and he is fed with food previously accumulated. The labourers, too, who have constructed his plough, must be fed on food which has been saved from previous consumption; for a considerable time must elapse before the harvest can be gathered from the soil which the plough has assisted in tilling. Capital, therefore, represents all that has been set aside from the results of past labour to assist present or future production. It will now be perceived that capital is as indispensable a requisite of production as either labour or appropriate natural agents.

CHAPTER III.

LABOUR AS AN AGENT OF PRODUCTION.

Wealth involves the application of labour

IT is manifest, from the remarks which have been made in the previous chapter, that labour is indispensable to the production of wealth. As we proceed to describe the purposes to which labour is directed, it will be found as observed by Mr Mill that labour creates utilities fixed and embodied in material objects. Nature supplies the materials, but labour fashions these materials, arranges them, places them in those situations in which they are required, and in fact renders them in every respect suited to satisfy the wants of life.

in complicated processes.

The greater number of commodities, before they become serviceable for man, pass through many complicated processes, each of which necessitates much complex labour. Trace the cotton seed, first sown in the swamps of Georgia, then supplying material to the looms of Manchester. Watch the woven cloth transported to the far East, there destined to clothe the inhabitants of some remote valley of Scinde. Attempt such an examination, and we at once become almost overwhelmed with the endless series of labourers who have ministered to the production of so simple a commodity as a piece of cotton cloth. There are those who cultivate the cotton plant in Georgia, and prepare it for exportation. The cotton has to be brought to the port. Shipwrights must have constructed the ships which carry the cotton from America to England; sailors must navigate these ships; dock-labourers are required to unload the cotton; the railway on which the cotton is carried from Liverpool to Manchester has been constructed by the industry of numerous classes of labourers; and the cotton, before it is woven into cloth, passes through

the hands of a succession of workmen whose skill is assisted by machinery—to the creation of which almost every class of labourers has contributed, from the collier to the skilled and thinking mechanician. Every one may also be regarded as an important participator in the work, who has, by his saving, contributed to the accumulation of the capital by which the industry of the labourers has to be sustained. We are quickly carried into endless ramifications if we attempt to ascertain the labour which has, either directly or indirectly, assisted in the production of an apparently simple commodity.

Productive and unproductive labour.

Although no wealth whatever can be produced without labour, yet there is much labour which does not contribute to the creation of wealth. Hence, labour is divided into two great classes, productive and unproductive labour. This is a distinction which, in name, is familiar to those who have not studied political economy.

Functions of labour

Before the characteristics which distinguish productive from unproductive labour are explained, it will be necessary to revert to our primary conception of wealth. Nature, as has been before remarked, supplies the materials. Man is powerless to create any material object; he combines substances together which would never be combined without his interposition, and thus creates a product which nature could never construct without his aid. Man takes the wheat and puts it in that situation where it will be ground; with the flour he mixes a certain quantity of water and yeast, and when he has brought the mixture within the influence of the requisite heat, a loaf of bread will have been made. It is through the agency of man's labour that these utilities are embodied in material objects which give them their exchange value. For instance, the utility which man confers upon coal is to place it in those situations in which it may be required. There can be no doubt, therefore, that all that labour is productive which confers utilities upon material objects.

in conferring utilities directly

Such is the labour of all ordinary workmen. Agricultural labourers, manufacturing operatives, bricklayers, &c., must all be manifestly ranked as productive labourers. All those, too, who are employed in transporting merchandise from one place to another, are productive labourers, for they confer upon commodities the utility of being

in the place where they are required. The labour of policemen and others who are engaged in protecting industry is productive, because they confer upon commodities the important utility of security. But even the labour of productive labourers is not unfrequently unproductive. Public works have been commenced and abandoned; the labour which was bestowed upon these is of course wasted. A railway was constructed from Chesterford to Newmarket; it was closed almost from the first; there is now no chance of its being reopened, for the company has commenced reselling the land to its original proprietors; and thus the labour of even the most useful workmen may be unproductive.

or indirectly.

There is also labour which is eminently useful, but which, however, does not directly contribute to the production of wealth. As an example of this, it may be mentioned that, not many years since, the uneducated labourer was considered as efficient as the educated labourer, and employers were heard to regret those days when there were no schools to corrupt the industrial virtues of the workmen. When such opinions were current the labour of the schoolmaster must have been considered entirely unproductive, because it would have been supposed that, even if he did not interfere with, he certainly did not promote the efficiency of the labourers, regarded as mere machines for the production of wealth. But now facts are every day coming to light which must impress us with the conviction that the schoolmaster occupies a most important position in the material economy of the nation. Even to manual labourers a properly developed mind is as essential as a well developed body; and there can be no doubt that he who contributes in any manner to improve either the physical or intellectual condition of the people takes no unimportant part in assisting the nation's wealth. Much labour, therefore, which at first sight may seem unproductive will appear, on further consideration, to exert an indirect influence upon the production of wealth. Popular notions attach a certain stigma to unproductive labour. No doubt, waste of any kind is to be deplored; but we should not be too prone to regret that so much labour is devoted to provide the pleasures of life, for the happiness of a nation may be in some degree estimated by

the time and labour which can be spared for enjoyment: even the labour of those who provide these enjoyments is not altogether unproductive; a man will work with more vigour and efficiency if his mind can be diverted from the routine toil of life.

Definition of productive labour.

From these remarks we are able to deduce a precise definition of productive labour. The definition which is now usually accepted, is as follows:—'Productive labour is that which produces utilities fixed and embodied in material objects.' According to this definition, the labour of the teacher is unproductive from whose instruction a mechanic acquires his skill. And yet the skill of our workmen ought to be classed as wealth, because the loss of this skill would diminish the wealth of the nation, as much as if she were deprived of a great amount of material wealth. If, however, the skill of the labourer is classified as wealth, we strain the use of the word wealth beyond its usual acceptation; because wealth is always popularly conceived to be something material. We will therefore adopt the following definition:—Productive labour is that which either directly or indirectly produces utilities fixed and embodied in material objects. According to this definition, the labour of the teacher who imparts skill to the mechanic is productive, for by this skill wealth is created—or, in other words, utilities are embodied in material objects, and therefore the labour of the teacher *indirectly* produces these utilities, and his labour must consequently be classified as productive. The definition, moreover, obviates the necessity of running counter to popular language, for this is undoubtedly done if we denominate as wealth such an immaterial object as the skill of a mechanic.

Productive and unproductive consumption.

For the purposes of political economy, there is another distinction, as important as that between productive and unproductive labour. Much of that which is produced is destined to be wasted, or to be consumed unproductively. The wants of those who never contribute, either directly or indirectly, to the wealth of the nation must be supplied by the results of productive labour; and hence a portion only of the results of productive labour assists in the formation of new wealth. Consumption, therefore, as well as labour, may be either productive or unproductive.

Although the entire consumption of unproductive labourers must be unproductive, yet it does not follow that commodities are always consumed productively by productive labourers. For instance, even the poorest labourers in this country purchase some luxuries which they could abstain from, without in the slightest degree diminishing the efficiency of their labour. All such purchases, therefore, even if made by the most productive labourers, denote unproductive consumption.

The distinction between productive and unproductive consumption will assume considerable importance in the remarks we are about to make upon capital.

CHAPTER IV.

OF CAPITAL.

Definition of capital.

WE have already explained that capital is as indispensable a requisite of production as either labour or appropriate natural agents. A very little consideration will render it evident that labourers, whilst engaged in any particular industry, cannot live upon the commodity which their labour is assisting to produce. The ploughman who tills the soil from which, in the following autumn, the harvest will be gathered, is fed with the wealth which his master has saved; or, in other words, the master pays his labourer's wages from the wealth which he has previously saved. The production of wealth, therefore, cannot proceed unless some of the wealth previously produced has been set aside from immediate consumption. The wealth which has been accumulated with the object of assisting production, is termed capital; and, therefore, the capital of the country is the wealth which is not immediately consumed unproductively, and which may, consequently, be devoted to assist the further production of wealth. This is a wide definition, but it is correct and sufficiently definite until the subject has been more fully elucidated.

Fallacy of confounding capital with money.

In the general introductory remarks upon wealth, particular attention was directed to that current fallacy which confounds money with wealth. The student, in obtaining his primary conceptions of capital, is not unfrequently confused by a similar fallacy. Capital, like other wealth, is estimated and expressed in money. Hence the idea is encouraged that capital consists of money, to the exclusion of any other commodity; although, perhaps, adhesion would not often be professed to such a proposition

when stated in plain terms; yet, when the error can be partially concealed in some of the difficulties of complicated questions, it will be found to vitiate the speculations of many a pretentious talker. Capital, let it again be borne in mind, is all that wealth, in whatever shape or form it may exist, which is set aside to assist future production. It is true that if, for instance, you ask a farmer how much capital he has with which to work his farm, he will reply that he has so many thousand pounds, but his capital is not actually in money, and even if it were in money it could not fulfil the functions of capital until the money had been exchanged for various commodities. For why does a farmer require capital to work his farm? He requires capital because implements and stock are wanted, and because he must have money, or some other property in hand which he converts into money, in order to pay the wages of his labourers; although a farmer estimates his capital in money, he obtains the amount of this estimate by ascertaining the pecuniary value of various items of which his capital is composed. In making this calculation, he takes account of the value of his stock, his implements, and the amount of money which it is necessary for him to keep in hand in order to pay his labourers' wages, and to provide the outlay which is requisite for other purposes.

Capital not all in actual employment.

It has been just stated that the whole capital of any country is the sum of the wealth existing in any shape or form whatever which has been set aside with the object of being devoted to assist future production. Hence it is manifest that the whole capital of the country is not at any particular time actually employed. This may be readily explained by an illustration.

Let us consider some commodity such as wheat, which is produced in our own country, and to simplify the matter we will suppose that the wheat of one harvest is consumed by the time the next harvest is gathered in. Now it may be naturally asked, what portion of this wheat ought at any time to be regarded as constituting capital? Immediately the harvest is gathered in, the wheat is of course so much wealth, and at that time just so much of the wheat as each individual owner intends to employ productively is capital. But this affords no correct estimate of

the quantity of this wealth which will be ultimately employed as capital. The intentions of the individual owners may change; he who to-day intends to devote to productive employment so much wealth as is represented by a certain quantity of wheat in his possession, may next day resolve to spend it on unproductive consumption, and therefore, to speak correctly, the amount of the capital of a country varies from day to day, on account of the shifting caprice of individuals. It has been supposed that the whole of this wheat will have been consumed when the next harvest arrives, and then the exact quantity of the wheat which has been employed as capital would of course be known, if the portion of it which had been devoted to productive purposes could be ascertained.

A difficulty stated: Is all the wheat in existence capital?

A difficulty may here probably suggest itself, which it is very important should be cleared away. A prime necessary of life such as wheat is never to any large extent wasted or squandered luxuriously; the great bulk of it being always devoted to satisfy the most necessary wants of life. It may therefore be asked, Should not all the wheat which a country possesses be regarded as a portion of its capital, when it is consumed as usefully as any commodity can be? A prodigal farmer may sell his wheat, and squander the money which he obtains for it, but the wheat will not be wasted, and therefore it might be very plausibly urged that the individual owner of a commodity like wheat does not prevent it being productively employed, or, in other words, has not the power of determining whether it shall or shall not form a portion of the capital of the country. We have thus gradually found our way to a difficulty. The subject of capital cannot be considered under too many aspects; it is here that the young student in political economy finds himself most beset with difficulty. He will never become familiar with the fundamental principles of capital by exhibiting them in the form of propositions; they had better be suggested to him by following out some illustration. An adequate grasp is never obtained of the physical principles of mechanics, until the student has solved problems for himself.

The case suggested is this. Suppose the farmers resolved to sell half their wheat, and spend the money upon their own enjoyments; the money for which one-

half the wheat is exchanged would be thus employed unproductively. Ought this wheat to be regarded as capital? Yes—is the answer which will very probably be given. It is true that the money for which the wheat is sold is employed unproductively, but this will not in any degree prevent the wheat being devoted to useful purposes. The wheat will still be made into bread, and will be consumed in just the same manner as it would have been if the farmers devoted the money for which it was sold to productive purposes, instead of spending it on their own enjoyments. But suppose the farmers had devoted this money for which the wheat was sold to productive purposes; by just that amount would the capital of the country be increased. The money for which the wheat is sold is not itself consumed; this money is devoted to purchase commodities, and if they are consumed unproductively, an amount of wealth equal in value to the quantity of wheat first exchanged is consumed unproductively, instead of being devoted to increase the capital of the country, and thus assist the future production of wealth. Now our argument implies that when unproductive consumption is spoken of, a tacit assumption is made that the money for which the wheat has been sold is employed, in great part, to purchase luxuries. But luxuries, it may be said, naturally imply waste, and are not devoted to assist the production of wealth. Hence, all that portion of the wealth of a country which consists of luxuries can never be productively employed, and, therefore, can never be made to form a part of a nation's capital. It may, therefore, be asked, Can a farmer be said to diminish the capital of a country, if he does not waste his wheat, but simply sells it to others who will take good care to use it properly? It may further be urged that he does not reduce the capital of the country by buying luxuries; for luxuries cannot be used as capital, and if they were not consumed unproductively by him they would be so by some other person. It might, therefore, appear that wealth is diverted from forming a part of the capital of the country rather by those who produce luxuries, than by those who consume them; it must, however, be borne in mind that the demand of the consumer, and not the arbitrary caprice of the producer,

That portion which is exchanged for luxuries is not capital.

determines the particular commodities which are manufactured. Luxuries, and other articles which cannot be devoted to reproductive employment, would not be brought into the market if it were not for the demand of the consumer. Enough has now been said to establish the proposition that an individual increases the capital of the country, not by spending his wealth on his own enjoyments, but by devoting it to reproductive employment. This is only another corroboration of what has been already stated, namely, that capital is the result of saving. For when wealth is saved, it is not hoarded, but invested; it is then productively employed, and as a consequence at once assumes the functions of capital.

A demand for commodities is not a demand for labour.

The proposition just enunciated, that an individual diminishes the capital of a country by spending his wealth in luxuries, and increases the capital of the country by saving it, will lead us to another equally important proposition, and one which is sometimes announced as a startling paradox. For we shall be able to deduce, from our previous remarks, that a demand for commodities is not a demand for labour, or, in other words, that he who spends his wealth upon his own indulgences gives no additional employment to the labourer; the labourers are benefited by those who save, and who are eagerly anxious to accumulate wealth for themselves. These opinions, however, are entirely opposed to popular notions. The spendthrift is half excused, and often receives the homage due to a public benefactor, because, although he injures himself, yet it is supposed that he benefits the community in general. The virtues of prudent saving meet with no such kindly reception; if there is national distress, the capitalists have first to bear the brunt of popular indignation. We will endeavour to explain away such misconceptions.

We must revert to our original definition, that the capital of a country is that portion of its wealth which is appropriated to reproductive purposes. But if wealth is so appropriated, it must be employed in assisting those who produce wealth. But the producers of wealth are the labourers, therefore capital remunerates the labourers, or in other words, the capital of a country is the fund out of which the labourers are paid their wages; the greater,

BOOK I. CH. IV.

This proposition illustrated by an example.

therefore, the capital is, the larger will be the fund which is to be distributed amongst the labourers. Returning to our previous illustration, we will consider two cases. In the first place, let it be supposed that a farmer sells a certain portion of his wheat, say one half, and spends the amount upon his own enjoyments. He afterwards ceases to do this, and converts the amount he previously spent into capital, employing it in paying labourers. In what manner will this change in the farmer's course of conduct affect the labourers? In the first case, the farmer may spend the money upon such enjoyments as luxurious living and expensive wearing apparel. Let one item of his extravagance be taken. Suppose it be 50*l.* paid to his tailor for expensive cloth. The manufacturer of this cloth has employed so many labourers, and if there was no demand for it, the labourers engaged in its manufacture would be thrown out of employment; and, therefore, it would appear that the purchaser of 50*l.* worth of cloth causes just the same demand for labour as if he had paid this 50*l.* to labourers whom he himself employed. But there is a further consideration. When the cloth is consumed, so much wealth is destroyed; the wearing of the cloth has given gratification to the purchaser, but has not in any way assisted the future production of wealth. So much wealth has been destroyed without any reproductive result. But if the 50*l.*, instead of being laid out in cloth, was paid directly to labourers, different results ensue, for then, after the 50*l.* has been consumed by the labourers, there will be something left; there will be the result of their industry, which will represent so much wealth. And thus the wealth of the country will be increased. But we have yet to examine whether any different consequences will ensue to the labourers themselves. It will probably be thought that the labourers, as a body, will be in the same position as they were before; and that the same amount of wages will be distributed amongst them, because since there is now not so great a demand for cloth, fewer labourers will be employed in that department of industry; and that the loss to labourers employed in making cloth will be compensated by the farmer employing more labourers in agriculture. This is, undoubtedly, true; but if there is less demand for cloth, less will be

manufactured. The cloth manufacturers will restrict their business, they will have to employ less capital in it than they did before; they will, therefore, be able to spare a portion of their capital for other investments; nothing has occurred to make these manufacturers more extravagant, and therefore they will be anxious to seek some profitable employment for that portion of their capital which is now set free from their own business. This capital will still, therefore, be employed productively; but if it is employed productively, it must still continue to perform the functions of capital, or, in other words, must be devoted to pay the wages of labourers engaged in some productive employment. Hence a greater demand must be caused for labour if an individual, instead of purchasing commodities for his own enjoyment, employs the money to pay the wages of the labourers. The proposition that a demand for commodities is not a demand for labour, is a proposition which is perhaps more rarely understood than any other in the whole range of political economy. Let us, therefore, endeavour to exhibit its truth in a still stronger light. The truth of the proposition shall be tested by the most extreme case which even an opponent can suggest.

A further illustration.

Let it be supposed that a person has a certain amount of property in the form of some useful commodity; that he sells a portion of it, 50*l.* worth, with which he purchases some useless luxury, such as lace. If it is correct that a demand for commodities is not a demand for labour, then the purchase of this lace ultimately does no more good to the labourers than would be done if the individual wantonly destroyed the property which has been sold in order to purchase the lace. If such a wanton destruction of property occurred, the demand for lace would be proportionately diminished, and, as we have before mentioned, the result of this diminished demand would be, that the lace manufacturer would employ less capital and less labour in his trade; but he would be anxious to make use of the capital which was thus set free from his business; he would seek for it some profitable investment: it would therefore be not wasted, but continue as capital, or, in other words, would still be appropriated to pay the wages of labourers. Hence the capital of the country, and,

therefore, the fund which is distributed amongst the labourers, is not in any way diminished if an individual should wantonly destroy so much wealth, instead of consuming it unproductively for his own gratification. It is therefore evident that demand for commodities is not demand for labour, and that, consequently, an individual increases the wealth of the country, and improves the condition of the labourer, not by spending, but by saving.

Another case. Employment of unproductive labourers and unproductive consumption of wealth compared.

There still remains another case to be considered. We have shown, in the above example, that the owner of capital neither increases the wealth of the nation nor benefits the labourers if he spends his wealth unproductively upon his own enjoyment. But how will the wealth of the nation, and how will the condition of the labourers be affected, if an individual employs his wealth in paying the wages of unproductive labourers? Suppose that the 50*l*., which in the above example purchased lace, was now devoted to paying labourers engaged in carrying out some useless work—such, for instance, as digging an artificial lake; this change in the mode of spending money would benefit the labourers, because the amount of money distributed amongst the labourers, or, in other words, the wage-fund, would be increased by 50*l*. As far as the labourers, therefore, are concerned, there is an important difference whether wealth is consumed unproductively or whether it is spent in maintaining unproductive labourers. The unproductive consumption of wealth benefits the labourers as little as if the wealth was wantonly destroyed. But when wealth is spent in paying labourers for doing unproductive work, then the labourers are, in the first instance, as much benefited as if the wealth was devoted to productive industry. This must be so, because the same amount is distributed amongst the labouring classes. But the ulterior consequences which result from the productive employment of capital are very different, for when capital is productively employed the wages which are consumed by the labourers cause a reproduction of wealth; therefore, in this case, the wealth of a nation is increased, and there is a greater fund from which future capital may be saved. Hence, if we summarise our remarks on this subject, it is evident that there are three cases:—

1. A man may spend money on luxuries; then capital is consumed in simply giving him pleasure.

2. A man may spend capital on unproductive labour; then capital is consumed in simply giving food to labourers.

3. A man may spend capital on productive labour; then capital is not only reproduced, but also gives the same amount of support to the labourers as in the second case.

General result of the discussion.

The propositions just established afford an instructive proof that a knowledge of even the first elementary chapters of political economy shows the futility of the reproaches which ignorance casts upon this science. It is stigmatised as encouraging selfishness; but the selfish man devotes his means to his own indulgence, and political economy proves that such an one cannot claim the excuse of benefiting the labourers by causing a demand for the products of their industry.

These conclusions are in practice modified by the complexity of commercial transactions,

The propositions of political economy are necessarily somewhat abstract, and cannot be rendered familiar to the reader without illustrations. It is important to make these illustrations appear as practical as possible; and, although there is nothing at all improbable in the cases we have above supposed, yet the affairs of commercial life are complicated by other considerations which we cannot conveniently take account of, until we have further advanced into our subject. We have supposed the case of an individual who, having been accustomed to purchase 50*l.* worth of lace, ceases to buy the lace, in order to employ the money in paying the wages of labourers. To this it may be objected that political economy is not concerned with a single farmer or a single manufacturer, but ought rather to investigate the economy of a nation. But the result cannot be altered if the transaction we have supposed occurred between a great number of farmers and manufacturers, instead of between single individuals. Again, it may be remarked that, in discussing the above example, it was stated that when individuals cease to buy lace, in order to employ more labourers, the lace manufacturers would, in consequence of this diminution in the demand for lace, restrict their business, and would employ less capital in it. But it may be said that we have omitted to consider the losses which must always

but are still valuable.

occur, both to the manufacturers and to their operatives, when their particular branch of industry suffers a check. Upon this point, however, we will make an observation, which should be carefully borne in mind throughout our illustrations. The results which are deduced from the principles of political economy do not come into immediate operation. These principles indicate and affirm tendencies to produce certain results, which will inevitably in time be realised, if not counteracted by other causes. Thus a diminution of demand, such as we have imagined, has recently occurred in the Coventry ribbon trade; and no doubt the ribbon manufacturers cannot immediately transfer their capital to other departments of industry, nor can their operatives immediately find an equally remunerative employment: but still, if the ribbon trade is to remain permanently crippled, the Coventry manufacturers will gradually transfer all their capital to other investments, and the Coventry operatives will be gradually drafted off to other employments. Such a transfer of capital and labour cannot, however, be made without some sacrifice. Machinery, as will be shown in our remarks upon fixed capital, is an important part of the capital of a country; and the machinery employed in a ribbon manufactory would be almost valueless if it were sold to be used for some other purpose. The ribbon weavers, too, would be much less valuable labourers, because their acquired skill would not be so efficient in a different kind of industry. We must proceed gradually to take account of all these and other more complicated considerations. At the commencement of our subject it is necessary to take the most simple cases; but even this elementary treatise will provide the student with the requisite data fully to solve economical problems of much complexity.

Capital is frequently wasted or employed ineffectively.

In the course of this chapter it has been frequently remarked that capital is the wealth which has been appropriated to assist future production. Wealth so appropriated consists of machinery, stock, implements, and a fund out of which the wages of the labourers are provided; but the capital of the country is not always employed at the greatest advantage, or, in other words, the capital of a country might always administer to the production of a greater quantity of wealth than is actually produced. Capital is

wasted through want of skill; inferior machinery is frequently used; industrial enterprises, after having involved a heavy outlay, are often finally abandoned. Capital, from other reasons, too, never contributes all the assistance it might to the production of wealth. The wages of labourers paid out of capital are generally sufficient to provide something more than the necessaries of life. The worst paid classes of labourers probably spend some small portion of their wages in luxuries, the consumption of which does not assist, but perhaps rather interferes with, the efficiency of their labour. The advocates of Temperance profess to furnish abundant statistics upon this point. We are assured that the working-men of this country annually spend 3,000,000*l.* upon tobacco. If it can be proved that tobacco does not benefit, but injures both the body and the mind, then 3,000,000*l.* of the capital of the country, which in the first place is paid to labourers, and then expended by them in tobacco, is, considered as capital, rendered completely nugatory, because the 3,000,000*l.* in no way assists the production of wealth. If, moreover, it is true that tobacco cannot be used without detriment, then this 3,000,000*l.* of capital not only does not assist, but actually is an obstacle to the production of wealth. But it will perhaps be said, although this sum of money spent upon tobacco does the labourer no good, yet it is not without its beneficial influence; the expenditure of so much money is good for trade, and thus the labourer receives an indirect advantage. The fallacy of such a supposition will be readily understood by recalling the proposition we have been so careful to explain, namely, that a demand for commodities is not a demand for labour. It is, however, necessary to be extremely cautious in expressing an opinion as to whether the consumption of a particular article in any way does the labourer good. The relations between chemistry and physiology are as yet by no means settled. The theory of food is most imperfectly understood. A chemical analysis may very possibly show that such an article as tea contains none of those ingredients which are commonly considered to nourish the human frame; and hence a rash and ignorant assertion is often made that tea is not a necessary of life, and that therefore a heavy tax upon tea is no hardship to the labourer; the tax is simply

a salutary sumptuary law, because the consumption of tea ought rather to be discouraged than encouraged. But although tea may not nourish the body, yet it undoubtedly soothes the mind, and this is equally important; for without some such soothing influence, life would be almost intolerable, and even the body itself would be wasted by the weariness of the mind.

Enough has now been, perhaps, stated to establish the proposition that although industry is maintained by capital, yet that there is always in a country sufficient capital to support more industry, or, in other words, to administer to the production of a greater quantity of wealth than that which is actually produced.

Fears of a 'glut' of capital are based upon misconception.

Intimately connected with this portion of the subject of capital there is a very wide-spread misconception that there would be a glut of capital if it were increased beyond a certain point; in fact, that capital might be so augmented that no industry would be found upon which it could be employed. Therefore, a certain waste of capital is considered necessary in order to prevent such a glut. Now, it has been explicitly stated that capital is the result of saving, and therefore if capital is increased, the increase must be due to greater saving. Let it therefore be supposed that the rich spend much less upon luxuries, and resolve to employ labourers with the money thus saved. It may be imagined that if such saving were continued, our various industrial marts would soon be overstocked, and that warehouses would be filled with goods for which there was no demand. There are few even amongst political economists who do not sometimes write and speak as if they believed that the unproductive expenditure of the rich is required to give adequate employment to the poor. But if such an increase of capital as that described should occur, two suppositions may be made: an increase of population proportionate to the increase of capital may occur; or, secondly, the population may remain the same as it was, before the increase of capital commenced.

An increase of capital might accompanyan increasing or a stationary state of population.

The first case presents no difficulty; the increased capital would be required to support the increased population. But the second case must be carefully considered, and it at once suggests this difficulty: if all the labourers were previously fully employed, how could

the increase of capital give additional employment to labourers?

In either case the fears of a glut are imaginary.

A particular point, which may be keenly disputed in an abstract science, such as political economy, is frequently completely obscured in the ambiguities of general language; and, of this, the question under discussion affords a striking example. It therefore becomes very necessary, as a preliminary process, to attribute a distinct meaning to the above expression,—'giving additional employment to the labourers.' The augmentation in the capital of the country has been supposed to result from the diminished consumption of luxuries on the part of the rich. It is assumed that all the labourers were previously fully employed. But a new fund, which is now intended to be paid to the labourers, has arisen from the increased savings of the rich; where, therefore, are the labourers amongst whom this increased fund is to be distributed? Those labourers, it is true, who have manufactured the luxuries which the rich now no longer purchase, will be thrown out of employment. But the capital of the manufacturers of these luxuries will be now seeking fresh investments, and will be therefore sufficient to give employment either directly or indirectly to the same number of labourers as were previously maintained by it, and therefore the new capital created by the increased savings of the rich still apparently remains unemployed. But although the assumption has been made that all the labourers were previously fully employed, yet let us consider what this means. It must be interpreted thus: That all able-bodied labourers were in full employment, and that they received certain wages for a certain quantity of work. There can be no doubt that the labourers would willingly receive more wages if they could be obtained. It is quite impossible that the wages can be increased unless the capital is increased; now, however, there is an increase of capital, and therefore the wages of the labourers will rise. If the labourers were before supplied with all the necessaries of life, they in their turn will begin to consume more luxuries, and the labour which before had produced luxuries for the rich is now available to meet this new demand on the part of the labourer. It may, however, be argued that if the capital continued in this way to increase,

the labourers' wages would also be constantly increasing, and at length all their wants might be satisfied. When such a happy event was consummated, then the hours of toil would be shortened, and men would not be compelled to labour so ceaselessly as at the present time. Human beings are not endowed with an uncontrollable instinct for physical exertion; the wants of life must be satisfied by physical labour, but civilisation has no nobler mission to fulfil than to diminish the labour which is required to satisfy the physical wants of life. Hence the vaunted progress of civilisation must appear delusive to that great majority of the human race who toil for hire, and who have not yet found that the hours of their toil have been lessened.

Generations after generations pass away whose minds remain undeveloped, and whose bodies have had to work with the constancy and the regularity of a machine. Political economy will assist us in understanding the means by which the labourer's toil is to be lightened. Let it not then be called a harsh or degrading science, for no study can fill our minds with brighter anticipations for the future than one which will enable us to comprehend some of the requisites which will afford, to a greater number, "that only true and most supreme happiness—the development of the human faculties to a harmonious and consistent whole."

Capital must be consumed in order to fulfil its functions.

Since capital is the result of saving, it is often erroneously considered that capital is wealth which is set aside with the object of not being spent; but this is a fundamental misconception, for capital cannot fulfil any of its functions except by being wholly or partially consumed. Thus, capital provides the fund from which the wages of labour are paid, and these wages are, of course, consumed in ministering to the wants of the labourer, and in supplying him with all the various necessaries of life. If a man has so much wheat, it is wealth which may at any moment be employed as capital; but this wheat is not made capital by being hoarded; it becomes capital when it feeds the labourers, and it cannot feed the labourers unless it is consumed. These considerations apply to capital existing even in a more permanent form, such as machinery. All machines must in time gradually wear out; a

steam-engine, durable as it may appear, is only capable of performing so much work; but a steam-engine is capital, because it assists the production of wealth, and therefore it only fulfils the functions of capital when it is in motion; but every hour that it is kept in motion contributes somewhat to its ultimate wearing out. It is therefore manifest that all the wealth of the country, in whatever form it may be, can only perform the functions of capital by being wholly or partially consumed. The capital of a country is constantly being consumed in order to produce more wealth, and therefore capital is maintained by perpetual reproduction, and not by hoarding and keeping wealth out of consumption.

The leading propositions with regard to capital have now been discussed, and they afford principles which will enable us to investigate economic problems of the greatest interest and importance. An endless variety of such problems bearing upon the subject of capital may be readily suggested, and the student should zealously apply himself to their solution. Let him not suppose that he is wasting time upon the mere rudiments of the science; he may rest assured that, if he fully comprehends the subject of capital, his future successful progress in the science is insured, and that he will become one of the few who can apply the principles of political economy even to those simple financial and social questions which are the topics of everyday discussion.

Practical application of these principles.

It will be, perhaps, useful to our readers if we give one or two practical applications of the laws of capital which have been enunciated in this chapter. One such application is suggested by considering the rapidity with which a country recovers from the ravages of a disastrous war. This phenomenon was first fully elucidated by Dr. Chalmers. A conqueror overruns a country, and destroys every vestige of accumulated wealth which he can discover. A great portion of the food with which the labourers were to be fed is gone; machinery and other appliances with which industry is assisted are destroyed. The capital of the country appears to be almost lost, and when it is remembered that the future production of wealth depended upon this capital, it might be supposed that production would cease, and that the country must for years remain the same desolate waste. But, on the contrary, countries

Effects of a war.

which have been thus ravaged and pillaged, have in a few years revived, and seemed to be as prosperous as before. The history of Athens and the French Wars in the Palatinate afford many striking examples of a rapid recovery from the devastation of war. The phenomenon admits of a very simple explanation. It has been shown in this chapter that the capital which at any time exists in a country is always sufficient to administer to the production of a much greater amount of wealth than that which is produced; or, in other words, the production of wealth which actually takes place might be effected with the aid of much less capital than the amount which is applied. There, therefore, always exists a considerable excess of capital which might be wholly destroyed without necessarily impeding the production of wealth. For instance, every shilling of the labourer's wages which is expended upon anything but the mere necessaries of life might be destroyed without affecting the industrial efficiency of the labourer, and consequently without diminishing the future production of wealth. If, therefore, in a country ravaged by war, there should be just enough food left for the labourers to live upon until the next harvest is gathered in, and if also they had the necessary agricultural implements, there is no reason why the country should not soon be restored to its former fertile and well cultivated appearance. But if the implements of agriculture were destroyed, cultivation could not proceed until they were replaced; and the after consequences of the war would be more permanently disastrous.

Commercial progress increases the evils of war.

As a nation advances in commercial prosperity, a constantly increasing quantity of national wealth assumes a permanent and fixed form. The docks, the railways, our unsurpassed mercantile navy, the great manufactories of Lancashire and Yorkshire, with their machinery as costly as it is ingenious; these works, and not the food and clothing stored in our warehouses, are the striking evidences of England's vast accumulated wealth. If all the food was destroyed except just enough to prevent the people starving, England in one year might present an unchanged aspect of commercial prosperity; for the food which is stored at any particular time is destined to be consumed, and it is only that portion which maintains productive

labourers that ministers to the future production of wealth. But if the fury of an invader should ever range unrestrained over these islands, and should destroy the wealth which exists in a permanent form, such as public works, machinery and buildings, then the disaster could not soon be repaired, and England would suffer for a far longer period than did poorer nations, conquered in more backward times. Hence war becomes more terribly disastrous to a nation as each year a greater proportion of her wealth is accumulated in a more permanent form. Let us hope, then, that commercial progress may carry with it guarantees for the permanence of peace. Of late years a feeling of false humanity has attempted to make war subserve the rights of private property. Life may be sacrificed with as much prodigality as ever. The foremost mechanical genius of this mechanical age is devoted to the production of weapons of death; but civilization, it is said, demands that there should be no wanton destruction of property. No such attempt to palliate the material disasters of war ought to be encouraged; war will be rendered less frequent, if a whole nation is made to feel its terrible consequences, instead of concentrating all the horrors in the sacrifice of thousands of helpless victims who may be marshalled at the caprice of a despot. If any nation should ever threaten England with invasion, England ought to speak in unmistakable language that her vengeance should not be confined to a retributive slaughter of soldiers, but that she would destroy all the public works upon which the wealth of the nation mainly depended. This will give a practical check to vaunting ambition, and might rouse a nation to restrain the military designs of the most despotic ruler.

Should wars be paid for by increased taxation?

This digression suggests a consideration of the much debated financial question, whether any extraordinary national expenditure, such as is caused by a war, ought to be defrayed by a loan or by increased taxation? England has resorted to loans, and a permanent record of this financial policy is afforded by a national debt, larger than the aggregate amount of the debts of all other European nations. Mr. Gladstone in his budget-speech of 1854 evoked the enthusiasm of the House of Commons by the declaration that the future financial policy of England was to be re-

versed. The expenses of the Russian War were to be defrayed entirely by increased taxation, and thus posterity would inherit the assumed advantages of that contest, unencumbered with the penalties of augmented pecuniary burdens. The virtuous resolution of Parliament was not maintained, and the Russian War added 50,000,000*l.* to our permanent debt. It would be foreign to our immediate subject to discuss to what an extent the present generation is justified in burdening future generations; there can however be no doubt that the whole of the money required for the Russian War might have been raised by taxation.

A loan may be obtained from two sources; it may be taken from the capital of the country, or it may be provided from increased savings. If capitalists consider that the terms offered by the Government afford an eligible investment, they may be induced to take some of the capital employed in various commercial undertakings, and lend it to the Government. If the Government spends the loan at home, the loan has not diminished the capital of the country; it has merely caused a portion of it to be diverted to other purposes. But although the capital of the country is not in the first place diminished, in all probability such a diminution will soon ensue. The Government will ordinarily spend the loan in warlike weapons. Cannon balls, gunpowder, and mortars are commodities which cannot be appropriated to assist the future production of wealth, labourers cannot be fed by them, and therefore when the loan is converted into such commodities it cannot form a portion of the capital of the country. If, however, the capital which has been contributed to the loan had remained with its original possessors, it would in the undertakings in which it was employed, in all probability, contribute to the production of some useful commodities which might afterwards be applied as capital. Upon such an hypothesis therefore, the capital of the country is diminished in consequence of the loan; the labourers will ultimately suffer, because since there is less capital there will be a smaller sum to be distributed amongst them.

Loans applied to

As a second hypothesis, let it be supposed that the loan

is obtained in the same manner, but is differently employed by the Government. Within the last few years large loans have been raised for the purpose of carrying out industrial works in India. By these loans railways have been made, and irrigation works have been constructed on a stupendous scale. In this manner the loans have been devoted to purposes of great industrial usefulness, which will, in all probability, render more assistance to the future production of wealth than if the money had remained in the hands of those who lent it to the Government. A loan thus applied may be raised without any injury to the labourers, and may at the same time permanently enrich a country. A loan, however, is very rarely contributed entirely out of money which had previously been employed as capital. A portion of it will be generally provided from increased savings. All that is supplied from this source will manifestly serve to augment the capital of the country; in this manner a loan may encourage the accumulation of capital, or, in other words, may benefit the labouring classes. The employers would not share the advantages thus enjoyed by the labourers, because the Government, having become the employer of a larger number of labourers, the demand for labour would be increased, and other employers would have to give their labourers higher wages. It may be with reason urged that a nation cannot be impoverished by the unproductive expenditure of a loan which is provided out of increased savings; because, since savings are increased, it must be assumed that if the loan were not raised the money would not be applied as capital, but would be spent unproductively by individuals; and therefore it may be said, Why should the unproductive expenditure of a government impoverish a nation more than if the same amount of wealth was spent unproductively by individuals? In one sense, no doubt, a nation is not rendered poorer, as may be shown from the following considerations: Suppose, for instance, we wish to make an estimate of the whole wealth of the English nation. All the wealth possessed by Englishmen in the funds should be omitted from this estimate. If it were not so, the same wealth would be counted twice over. Suppose A has a mortgage of 10,000*l.* on B's estate. The mortgage is wealth to A; but it is not a part of the nation's wealth, because the mortgage simply shows that B's estate

public works.

Loans applied to unproductive purposes.

is not entirely his own property, but that A has a share of it, the value of which share is equivalent to the amount of the mortgage. Similarly the fundholders have a mortgage upon the industry of the nation; and if the fundholders were all English, and the nation repudiated its debt, the wealth of the country would not in the slightest degree be either decreased or augmented: a most unjust confiscation of property would be perpetrated, but there would have been no destruction of wealth; for what the fundholders would lose the tax-payers would gain. The national debt, considered in this aspect, is a mortgage upon the industry of the nation; and the creation of a mortgage cannot diminish the wealth of a nation unless the persons who own the mortgage should be foreigners, when, of course, a portion of the national wealth is transferred to another country. These considerations show that if the raising of a loan encourages money to be saved, the loan might be spent in the most unproductive manner possible without in any way diminishing the national wealth. There is, however, a difference in the consequences which result when money is spent unproductively by individuals, and when the same money is subscribed to a loan, which is spent unproductively by Government. In the first case, where individuals spend the money unproductively, no one has to pay them anything for doing so; but in the second case, where these individuals lend the money to the Government to be spent unproductively, the whole nation has annually to pay a certain penalty in consequence of this unproductive expenditure. The penalty paid is the interest received by the lenders of the loan.

Effects of loans in general.

In estimating the effects of a loan we have these general principles to guide us: The loss of the labourer is in proportion to the extent to which the loan encroaches upon the capital of the country. A loan may increase the capital of a country either by encouraging greater savings, or by inducing capital to be subscribed to the loan from other countries. In this case the labourer may receive an immediate benefit, proportioned to the increase of capital caused by the loan. Indian railways have been constructed by loans subscribed almost entirely in England. It has been calculated that 11,000,000*l.* has been paid to the natives

of India for their labour upon railways; and, since this amount was imported capital, the labouring population of India derive the same immediate advantage as if 11,000,000*l.* had been distributed in gratuities amongst them. If, then, a loan in any way causes the capital of the country to be increased, the labourers will receive immediate benefit, even if the loan is spent unproductively; on the contrary, the employers will, under the same circumstances, suffer a loss, because wages will rise as a consequence of the capital being increased. India affords a striking example of this; for the large sums of money raised in England, and spent within the last few years upon the public works of India, have caused the wages of the labourers in that country to rise in a very marked manner.

The ultimate effects of a loan upon all classes depend entirely upon the manner in which the loan is spent. If it is spent unproductively, the whole nation will have to pay a permanent penalty for the extravagant expenditure. If it is devoted to works of industrial usefulness, which probably would not be carried out by private enterprise, then the nation may be enriched to an extent which it is difficult to calculate. Who can tell how much India has been enriched by her Ganges Canal and her Grand Trunk Road? These are some of the public works which will serve to remind posterity of the achievements of the greatest commercial company the world has ever seen.

In quoting warlike material as an example of an unproductive expenditure on the part of Government, it is intended to express no opinion adverse to military preparations. Vast sums have been, and will probably again be squandered in war; but there can be no greater impediment to the production and accumulation of wealth than a want of security from hostile attack; and therefore it is absolutely necessary, even for the interests of commerce, that the defences of the country should be adequately maintained.

Effect of raising money by taxation instead of loan.

Let us now examine what different consequences ensue if an increased expenditure is supplied by taxation instead of by loan. Increased taxation would be obtained in different ways in different countries. In our own country there are probably only two sources available for largely

augmenting the revenue. These are the income-tax and an increase of the duties upon some commodities of general consumption, such as tea and sugar. Let it be supposed that recourse is had to both these expedients. An income-tax may be paid in two ways; it may be paid out of income, or it may be paid out of capital. Thus a manufacturer who is charged with 1,000*l.* additional income tax, may pay the amount by increased saving, or, in other words, by diminishing his personal expenditure. If this is done, his capital is in no way affected, and therefore the labourers do not suffer; the important thing for them is that no encroachment should be made upon capital. But it will perhaps be said, that if the people who pay the increased income-tax are induced to retrench their expenditure, trade will suffer in consequence of their purchasing fewer commodities, and that the labourers will thus be injured because dull trade is always prejudicial to them. But here we must once more recall the important proposition, that demand for commodities is not demand for labour; if, therefore, the income-tax is paid from income and not out of capital, the labourers may derive a very decided advantage from increased taxation, because a portion of the money which is thus obtained by the Government is sure to be employed as capital, since it will be paid in wages to artizans, shipwrights, and other classes of labourers engaged by the Government. One of the advantages often attributed to a democratic suffrage is that the people have a direct interest in checking a reckless expenditure, and it is also urged that it is the interest of the rich in opposition to the poor to encourage heavy taxation. But the labourers will in every way be greatly profited by increased expenditure if the money is provided by an income-tax, which is sure to be partly supplied from increased economy, and which in this country it has never been proposed to levy upon the labouring population. In a country so rich as England, even a heavy income-tax would probably in the main be paid out of income, and not out of capital. Such a tax, therefore, would not seriously interfere with the production of wealth, but would most materially encroach upon the means of enjoyment, of all who pay it. In the richest country, if an income-tax continues to be increased, it must at length cease to be chiefly

An income-tax, if paid out of income, does not injure labourers;

if paid out of capital it injures the labourers.

paid out of income. Directly it encroaches upon the capital of the country, the tax becomes doubly burdensome and disastrous, the production of wealth will be gradually impeded, the position of the labourers must be rapidly deteriorated, and the finances of the country will be gradually brought into a most critical state. In a poor country, such as India, an income-tax is a much more hazardous expedient.

Objection to loans, viz. that they tend to diminish capital generally,

We have now pointed out some of the effects which follow both from loans and from increased taxation, and there can be but little doubt that loans ought to be avoided as far as possible. A loan, however, is perfectly justifiable when it is necessary to resort to so high an income-tax that it must in great part be paid out of the capital of the country. In such a case the production of wealth is at once impeded. If we had to decide between a loan and taxation as a mere abstract question concerning the production of wealth, there would be little hesitation in deciding against the loan, because a loan would generally be paid more entirely out of capital. It is, however, impossible to frame a general maxim which will apply to every case. Political economy will supply the principles which will suffice for each case, as it may occur. Thus, if a war should break out in India, it would be extremely impolitic to defray its cost by a loan if the money for the loan was subscribed in India, because the loan would thus abstract so much capital from India, a country which not only requires all her own capital, but in which works of the greatest industrial importance cannot be carried out until more foreign capital is imported. An Indian statesman would, however, have good reasons to prefer the loan, if it could be raised in England, for the loan would be the means of bringing capital to India. As the loan is intended to support a war, a great portion of it would, no doubt, be spent unproductively in India; but a considerable sum would be applied as capital in paying the wages of various classes of labourers who are always called into active employment by military preparations. It is also quite possible that, in order to assist some of the operations of the campaign, roads might be improved and bridges built, and in this manner a warlike expenditure might cause works of permanent commercial utility to be

but not invariably.

constructed. As a consequence of such a loan, the revenue of India would be charged with a certain annual payment, but such an annual charge might be paid out of income, or at any rate would not cause the same diminution in the capital of India, as if the loan had been in the first place entirely provided by Indian capitalists.

A general principle of taxation.

These discussions upon the relative advantages and disadvantages of loans and taxation will show the importance of arranging a tax so that it should cause the least possible diminution of capital. It is, therefore, extremely impolitic to tax a raw material. Suppose it were determined to raise a certain sum by taxing cotton; a tax on cotton goods would be far preferable to a tax on raw cotton. If a manufacturer were obliged to pay 100*l.* upon a certain quantity of raw cotton, he would thus have to give to the Government 100*l.* which he intended to employ as capital, and therefore the tax would be entirely taken out of capital. But suppose the Government said, We will let you manufacture your cotton, and then you shall pay us the same amount, by levying a tax upon the manufactured goods. The result of the tax would be, that the price of cotton goods would rise, the manufacturers would be able to pay the tax out of the increased price obtained for their goods, and the tax would not, under these circumstances, in any degree diminish the capital of the manufacturers.

Circulating and fixed capital.

It will have been remarked, that every kind of wealth which in any way assists the production of wealth has been, in this chapter, described as capital. Capital, therefore, is not confined to the food which feeds the labourers, but includes machinery, buildings, and, in fact, every product due to man's labour which can be applied to assist his industry; but capital which is in the form of food does not perform its functions in the same manner as capital that is in the form of machinery: the one is termed circulating capital, the other fixed capital. This is a real distinction, from which many important consequences follow. Circulating capital is only used once in order to fulfil any particular purpose; fixed capital may continuously repeat the assistance which is lent to industry. A store of food fulfils the functions of capital when it feeds labourers, but in feeding the labourers it is consumed; it cannot repeat

the service which it has rendered. But the same looms, set in motion by the same steam-engine, will continue to weave cotton cloth through a long succession of years. The same ploughs till the land for many successive crops. The capital with which a road is made does not facilitate the transport of wealth for any limited period; but, if a slight sum is spent to keep the road in repair, it will permanently serve the same industrial purposes. The capital expended on the great irrigation works of India, may, through countless ages, fertilise the same tracts of land. Circulating capital, since it is destroyed by one use, must receive an immediate return; the application of fixed capital is rewarded by industrial advantages continued for a long period of time. A farmer expects that each successive crop will remunerate him for the wages he has paid during the current year. But if he purchases a steam thrashing machine, he does not expect that his outlay will be returned to him in one year; he hopes to use the machine for a great number of years, and thus he will be gradually repaid for his original outlay. As another example, raw material is circulating capital to a manufacturer; the raw cotton is only once woven into cloth; and the manufacturer, when he sells the cloth, is repaid for the sum which he has expended in the raw material. But the money which he has invested in fixed capital—such as the machinery used in his manufactory—is gradually returned to him. When the capital which administers to the production of any wealth is entirely circulating, the amount of wealth produced must in value be at least equal to the capital employed; for since this capital, according to our hypothesis, is circulating, it is entirely consumed by one use, and therefore the particular industry could not be remunerative unless the value of the wealth produced was somewhat more than sufficient to replace the capital consumed. All capital, as we have before said, is intended to be, either sooner or later, consumed: circulating capital is destroyed by once ministering to the production of wealth; but capital is maintained by reproduction. Hence, since circulating capital implies immediate consumption, circulating capital must also necessarily imply immediate reproduction. Fixed capital, however, may repeat for a long period the assistance it renders to production; fixed

Practical consequences of the distinction between fixed and circulating capital.

capital, therefore, is only gradually consumed, and the amount of wealth expended upon fixed capital is not immediately reproduced. The most important practical consequences follow these considerations. Let it be supposed that a considerable amount of capital, which has been previously employed as circulating capital, is converted into fixed capital; when employed as circulating capital it was at once reproduced, and therefore the wealth which this capital produces must at least be sufficient in amount to enable the capital to be re-created. But the same immediate reproduction of wealth does not take place if the capital is converted into fixed capital; and therefore there need not immediately be produced so large an amount of wealth as if the capital were consumed by a single use, and had, in consequence, to be at once reproduced. Now, labourers derive their wages from circulating capital; hence, if the circulating capital is diminished, their wages will temporarily fall. As an example, the construction of a railway may cause circulating to be converted into fixed capital. Suppose that 10,000,000*l.*, previously paid to agricultural labourers, is now paid to railway labourers: the agricultural labourers would consume their wages; but then their labour would at once produce something which would be again consumed, and which would be again employed as circulating capital. The railway labourers will be as usefully, or even more usefully, employed than the agricultural labourers. The nation is not made poorer by this transfer of capital from one industry to another; she has her railway instead of the commodities which were produced by the capital previously invested in agriculture. There is no diminution of national wealth; but there may be less wealth in the country available for consumption—a smaller fund, in fact, to distribute amongst the labourers, and therefore the labourers may temporarily suffer. The application of improved machinery and the construction of such works as railways will ultimately confer upon the labourers an advantage amply sufficient to compensate them for any temporary loss which they may suffer from the conversion of circulating into fixed capital. Railways and machinery have most powerfully stimulated the production of wealth, and a large amount of wealth has been produced by their

A temporary injury may be inflicted upon labourers by the conversion of circulating into fixed capital,

aid which could never have been produced without them. Moreover, the capacity which exists in England for the accumulation of capital quickly repairs any encroachment that is made upon her circulating capital; and therefore it is doubtful whether the labourers in this country have been even temporarily injured by the extensive use of machinery, and by the rapid development of our railway system. Although the labourers have not been injured by this cause in England, yet the labourers of poorer and more backward countries might suffer seriously under similar circumstances. If the English Government constructed railways in India by loans subscribed for in that country, it would be reasonable to suppose that some of the capital so subscribed had previously been employed as circulating capital. An Indian farmer might say, The terms offered to me by the government are so good, that I shall get a better return for my money by lending it to the government than by employing it on my farm. The consequence would be a smaller production of food; the circulating capital would be diminished, and therefore there would be a smaller fund to distribute amongst the labourers. The injury to the Indian labourers would, however, only be temporary; the production of wealth would be so much assisted by the railway, that India would soon possess a far larger circulating capital than before.

especially in poor countries;

but it will be only temporary.

A rapid conversion of circulating into fixed capital may thus for a time very prejudicially affect the labourers. Their prejudice against machinery is not, therefore, altogether unfounded; they probably, however, would be as unable to give satisfactory reasons for their antipathy as those would who deride their ignorance. Mankind may reasonably expect much happiness from the perfection of mechanical appliances; but if posterity is to gain so much, it is not unreasonable that the poor should, if possible, receive some practical sympathy, when these great prospective advantages are accompanied by temporary suffering to the labouring classes.

CHAPTER V.

ON THE PRODUCTIVE POWER OF THE THREE REQUISITES OF PRODUCTION.

Variations in the productive power

THE three requisites of production, labour, appropriate natural agents, and capital, have now been discussed. The subject of the production of wealth will not be complete without an investigation of some of the laws upon which depend the amount or degree of productiveness of each of these requisites. All the materials upon which labour and capital are employed, are produced either directly or indirectly from the land. Wool is not a product of the land like cotton and timber, but the sheep from which the wool is clipped are fed by food obtained from the land. Land, labour, and capital are, therefore, the three requisites of production. The most casual observer will have noticed that each of these varies greatly in productiveness at different times, and in different places. Some of the richest tracts of land in England were not long since an uncultivated morass; Cambridgeshire and Norfolk are now amongst the largest corn-producing counties, yet Cambridge was once the home of the bittern and snipe, and Norfolk was little better than a rabbit-warren. At the present time England possesses land of every degree of fertility; the rich loam land of Sussex and the Lothians will let for 4*l.* an acre; the wild moors of Yorkshire, if given to a farmer rent free, would not pay to be cultivated. There is also the greatest difference in the efficiency of labour. It has been calculated that an English mower will do as much work in a day as three Russian serfs, and the contractors for the French railways found that an English navvy was worth two French labourers. Such differences

of land,

labour,

in the value of labour mainly depend upon superior strength and stamina, but still greater differences arise from superior skill; many operations in the manufacture of commodities require, perhaps, a delicate touch or a quick dexterity which no amount of untrained labour could supply. Capital, directed by superior knowledge, may effect what before was impossible; mines are now worked which no amount of labour and capital, unaided by the steam-engine, could have drained; and the application of a hundred times as much labour and capital would not produce the cloth which is now woven by the spinning-jenny and the power-loom. These considerations may, perhaps, suggest the opinion that we shall be obliged to call in the assistance of every science in order to investigate the laws which determine the productiveness of land, labour, and capital. For it may be said, agricultural chemistry makes known the constituents upon which depend the fertility of the soil; the difference in the stamina and strength of English and Russian labourers must be elucidated by appealing to physiology, and to other sciences. Again, the efficiency of machinery must be explained by the principles of mechanics. It, therefore, manifestly becomes necessary to place some limitation upon the scope of political economy, unless it is intended to embrace a vast number of other sciences. Now, it will be remembered, that no accurate definition of political economy was attempted to be given at the commencement of this work. It is far better that the reader should have the definition evolved for him as the subject gradually progresses.

and capital.

In the introductory chapter we described political economy to be the science which investigates the laws that determine the production, the distribution, and the exchange of wealth; it was, however, at the same time stated that this was rather a general description than an accurate definition. It is not an accurate definition, for it is already perceived that, even concerning the first branch of the subject, political economy does not investigate all the laws which concern the production of wealth; for if it did investigate those laws, chemistry, physiology, mathematics, and various other branches of knowledge, would form a part of the science of political

A necessary limitation of our enquiries into the cause of this variation.

economy. It will be necessary therefore to place some limit upon our investigations; and the necessary limitation is provided by assuming that the facts which are acquired from other sciences are known, or at any rate are supposed to be true. Thus political economy assumes all that we can tell at the present time with regard to the fertility of the soil. It is not the business of political economy to decide whether chemistry can suggest any particular manure which will greatly increase the productiveness of the land; but if the land, by any such cause, is rendered more fertile, then political economy would trace the consequences of this increased fertility upon the production, the distribution, and the exchange of wealth. Again, it would be foreign to the subject of political economy to prove, by a physiological argument, the causes upon which the inferior strength of the French and Russian labourers depends; but political economy, assuming that this inferiority exists, without explaining its cause, or suggesting a remedy for its removal, traces its consequences upon the production, the distribution, and the exchange of wealth.

Returning now to the immediate subject of this chapter; we have to consider the productiveness of land, labour, and capital, not as they depend on physical causes, but as they are determined by production on a large and small scale, by division of labour, by the accumulation of capital in joint-stock companies, and by various other such circumstances which we shall proceed to notice.

The productiveness of land.

The productiveness of land does not depend entirely upon its fertility; for the quantity of labour and capital which may be required to make the produce raised from the land available for consumption forms a very important element in estimating its productiveness. The rich alluvial plains of the Mississippi are almost unsurpassed in fertility; but a considerable portion of the wheat which is grown there is consumed in Europe; and the cost of carrying this wheat to the European markets is virtually so much deducted from the productiveness of the soil upon which the wheat was grown. When the valley of the Mississippi possesses population so dense as to consume all the wheat there grown, the land, although it may be not more fertile, will be more productive of wealth; for

the wheat will no longer be wanting an utility, which, amongst others, gives it the character of wealth, namely, of being in the place where it is required to be consumed: an utility which cannot now be conferred upon it without considerable cost. Everything, therefore, which facilitates the transport of produce, increases the productiveness of land. A great, perhaps the greater portion of the most fertile land in the world, is entirely unproductive. Products might be raised from it which would be eminently serviceable to man, but various obstacles interpose which render these products unavailable for consumption. Primæval forests may grow the most valuable timber, but man never uses this timber; for although no price in the first place may be paid for the timber, yet the cost of carrying it to the place where it will be required exceeds its value. The increase of population may create a demand for a product, and thus make the land from which it is obtained more productive. The great natural pastures of Australia have for many years supported immense flocks of sheep. In England the carcase of a sheep is far more valuable than its wool; but the reverse was the case in Australia—the wool was valuable, the carcase was worthless. Wool is not a bulky commodity, and the cost of sending a fleece from Australia to England is comparatively trifling; but so great a quantity of meat was almost worthless to so sparse a population. The gold discoveries at once caused the population of Australia to be largely increased; the mutton which had been before wasted was now required; the sheep became much more valuable; and the pastures upon which the sheep graze thus become far more productive of wealth, although the fertility of these pastures has remained unchanged.

It is affected by the facilities of transporting produce.

If the productiveness of labour is estimated by the amount of wealth which is produced by a certain quantity of labour, then the productiveness of labour is partly the cause and partly the effect of the fertility of the land. "Quantity of labour" may be conveniently defined by the labour of a certain number of men working for a certain number of hours per day. The amount of wealth which is produced depends jointly upon the productiveness of land and the productiveness of the labour employed; but as remarks have already been made upon

The productiveness of labour.

It is affected by the fertility of land,

the productiveness of land, we shall now proceed to consider some of the causes upon which, under any assumed set of circumstances, depends the productiveness of labour.

by national character,

Energy and intelligence are two of the most valuable qualities which a labourer can possess. It does not, as has been previously observed, appertain to our subject to attempt a full explanation of the causes which determine differences of national character. The Irish labourer, for instance, does not possess that steadiness and dogged determination which distinguish the English labourer. This inferiority in the Irish labourer is popularly attributed to his Celtic blood: but the Irish have no doubt been too poorly fed to be capable of sustained energy. If the English had for a few generations lived on the impoverishing diet which the Irish have used, the points of difference between the two races would undoubtedly be much less striking. The Irish have been badly fed and badly paid, because there has been little capital in their country. The principles of political economy, however, explain the means by which the capital of a country may be increased, and thus a remedy is suggested for improving the energy of the labourer.

by the increase of capital,

and by the education of the labourers.

Labourers have generally been so imperfectly educated that the economical advantage of intelligence to the labourer has been, and is still, most inadequately appreciated. Almost every industrial operation will be better and more expeditiously effected by the intelligent workman. Even a simple process like ploughing will soon be effected by costly and complicated steam machinery, which cannot, without serious risk, be entrusted to the care of ignorant workmen. Education produces a most decided improvement in the moral character of the workman. If workmen are dishonest, the loss which is incurred is in no way represented by the amount of property which may be stolen; if reliance cannot be placed upon labourers, they must be superintended and watched, and thus their labour is rendered less productive, because a certain portion of the wealth which is produced has to be paid to overlookers and others who would not be required to watch the labourer if complete confidence could be reposed in him. The productiveness of labour depends upon a great variety

of other personal qualities possessed by the labourer. Intemperance makes a labourer less able to do his work, and his labour is sure to be more irregular.

The productiveness of capital.

The productiveness of capital may be estimated by the amount of wealth which is produced by the application of a certain quantity of capital. Capital is of course capable of producing more wealth when it employs efficient labour and is applied to fertile land; but there are certain circumstances which tend to make capital more productive, whether the land and labour are good or bad.

It is affected by improvement of industrial processes;

Every improvement in any of the processes of industry makes capital more productive. Without the assistance of the steam-engine, the capital at the present time existing in the country would not suffice for the production of even a small portion of the wealth which is now annually produced. Machinery causes a greater quantity of wealth to be created with the assistance of a smaller amount of labour and capital. But the productiveness of capital is popularly estimated according to a different standard; for capital is conceived to be productive when the profits obtained by the capitalist are large. For instance, a farmer might say, It is true that in consequence of the advance in agricultural science a great deal more produce is grown upon a farm now than a few years since; but the rents which the farmers pay have increased; and, therefore, the profits of the farmer are not larger now than formerly. His capital, therefore, gives him no greater return, and he might for these reasons consider that the productiveness of capital had not been increased. This, no doubt, might be the case, as far as the farmer himself was concerned; but the productiveness of capital depends upon the amount of wealth produced, and not upon the particular manner in which this wealth may be distributed amongst the different parties who have a claim to be remunerated. The laws which determine the relative value of the remuneration received by landlords, capitalists, and labourers, will be explained in those chapters which treat of the distribution of wealth.

by everything which tends to economise labour.

Everything which tends to economise labour makes capital also more productive. Suppose the labourers on a farm have to be overlooked; a farmer who has twenty labourers might consequently be compelled to have a

bailiff, in order to see that the labourers do not shirk their work. The bailiff will be better paid than the ordinary labourer. The bailiff, we will suppose, is paid a pound per week, the ordinary labourer nine shillings. The bailiff thus receives ten per cent. of the whole wages paid by the farmer. If the labourers should be so much improved by education or by any other means that they would work equally well without being overlooked, the services of the bailiff might be dispensed with, and his wages would be saved to the farmer, who would now pay one-tenth less in wages than before. The capital of the farmer might therefore be diminished, and thus capital would be rendered more productive, because the same quantity of produce would now be raised with the outlay of a smaller capital. The case here supposed may perhaps be some day practically realised; as the labourer becomes improved by education, he will no doubt require less watching.

Hitherto, the great social and economic importance of securing the greatest efficiency of labour, by giving the labourer some pecuniary interest in the work in which he is employed, has been most imperfectly understood. The relations between employers and employed will never become satisfactory until they are more united by the bonds of mutual interest. Too many of our labourers pass a life of hopeless drudgery; they in no way share their master's prosperity. In some of the succeeding chapters of this work, the great advantages of co-partnership and cooperation will be shown; for it will be explained that under such systems not only has the labourer been socially and morally improved, but capital and labour have in this way been rendered more productive, by calling forth the highest and most skilled efforts of the labourer. Improved relations between employers and employed might render unnecessary the present large outlay upon wages of superintendence.

As yet only the general causes on which the productiveness of land, labour, and capital depend have been mentioned. Some of the more special means by which the efficiency of the three agents of production may be increased must now be considered. As a first example we will refer to the striking illustrations employed by Adam Smith, which demonstrate the advantages derived

Division of labour increases its efficiency,

from the division of labour. A pin passes through about eighteen processes. The metal has to be drawn into wire, the wire has to be cut a proper length, the end sharpened, the head must be made and fastened to the pin, the pin must be burnished and then properly packed. The most skilled workman could not make more than twenty pins per day if he had himself to attend to all the processes through which the pin passes. But when the labour of pin-making is divided, the various processes being performed by different workmen, ten workmen will make 50,000 pins in a day. Without division of labour the ten workmen would only make 200 pins per day, and thus it would appear that in this case a proper division of labour increases its productiveness more than two hundredfold. Other examples, even more striking than the one just quoted, might be readily selected. M. Say says that, in the manufacture of playing cards, there are seventy-two distinct operations. When these operations are appropriated to different workmen, 15,500 cards have been made in a day by thirty workmen; but if a single workman had to perform all the operations himself, he would not make more than one or two cards per day. The increased efficiency which is thus conferred upon labour is, according to Adam Smith, due to three causes:

for three reasons.

1. The increase of dexterity in every particular workman.

2. The saving of the time which is commonly lost in passing from one species of work to another.

3. The invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

The dexterity of the workman is increased.

The greatest influence no doubt is produced by the first of these causes, namely, the increase of dexterity of the workman. The effect of continuous practice in performing both mental and physical operations is most strikingly exhibited in the increased quickness obtained. By practice the eye and hand may learn to work in perfect unison, and the hand and eye are made to obey with intuitive quickness the behests of the human will. The glass-blower appears to give a casual glance at a decanter, wishing to make one like it. He places some molten glass upon his blow-pipe, and after a few minutes of blow-

ing and twisting a decanter is made, and between it and its model the nicest eye can detect no difference in size or shape; yet science can scarcely analyse or explain the marvels of this extraordinary handiwork. No rule but the eye has been employed to measure, the eye looks at the decanter, and the hand is thus directed. The shape of the decanter is produced by a combination of different forces, which the most refined analysis of the mathematician could scarcely investigate; there is the force of expansion caused by the blowing, and centrifugal and other forces are brought into action by the twirling and twisting. Many of the operations of industry need a dexterity which can only be acquired in childhood; the pliant fingers of youth must be moulded to the work. When, therefore, the distinct operations of any industry are performed by different workmen, then each of these operations may become a separate trade, for which men may be separately trained. If all the processes of pin-making were performed by one man, he would not have sufficient practice to acquire the requisite dexterity in any single operation, and therefore, if there was no division of labour in pin-making, all the labour employed must be, comparatively speaking, unskilled, and consequently very inefficient. The precision and quickness acquired by practice are not in any way confined to the mechanical operations of trade. What can be more extraordinary than the precision and quickness of the accomplished and practised musician? If the theory of violin-playing is explained, it seems to require a skill beyond the reach of man. The fingers appear to move with careless rapidity over the strings, yet the accuracy of each note depends upon the string being touched with the strictest correctness at some particular point.

Another advantage results from the dexterity of the superior workman, for he will use all the materials employed with the greatest possible economy; nothing is wasted by his blunders or mistakes.

The time of passing from one operation to another is saved;

Later writers on political economy, and amongst them in particular, Mr. Mill, consider that too much importance has been attributed to the second of the three causes which, according to Adam Smith, explain the increased efficiency of labour when the distinct operations of indus-

try are properly apportioned amongst the workmen employed. A great deal of time is undoubtedly wasted if a workman has often to pass from one species of work to another, and this waste is of course obviated when a labourer can steadily keep throughout the day at the same kind of work. But Adam Smith exaggerates the nature and the amount of the advantages which may be thus secured, and omits to notice some counterbalancing disadvantages which may very possible occur. Adam Smith says, 'A man commonly saunters a little in turning his hand from one employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent careless application which is naturally or rather necessarily acquired by every country workman, who is obliged to change his work and his tools every half-hour, and to apply his hand in twenty different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions.' There is nothing in this passage absolutely incorrect; it is, however, truth overstated. Each of the circumstances mentioned by Adam Smith produces some of the influence he describes; but his remarks would seem to prove that all those whose employments are various must be slothful and indolent, but the reverse is often the case; labourers frequently become quicker and more intelligent when the monotony of their employment is relieved by some variety. Waiters in large establishments are proverbially quick in their movements, and yet before they finish one thing they are often called upon to do a dozen different things. Gardeners are generally extremely intelligent, and yet there is the most constant variation in their employments. Before machinery was so largely used in agriculture as it is at the present time, the work of the agricultural labourer was far more monotonous. There are many labourers still living, who during twenty years of their life spent ten hours a day during ten months of the year in thrashing with the flail. Such a labourer might perhaps be somewhat stronger as a thrasher, but he passed his life as a machine, and it was impossible that

although the advantage of this has been exaggerated.

an active intelligence should be preserved through such an ordeal.

The invention of machines is perhaps facilitated;

The third advantage which arises from the division of labour as enumerated by Adam Smith is, 'the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.' There is some ambiguity in Adam Smith's conception of the causes which influence the invention of such machines. Returning to our original example, each of the workmen employed in pin-making has his attention concentrated upon some distinct operation of the manufacture, and it is therefore maintained that he will be more likely to suggest some improvement in the particular operation in which he is constantly engaged, than would another workman whose attention should be distracted upon a great number of the processes of pin-making. The supposition may be verified by some striking instances. The boy whose only employment consisted in opening and shutting the valve of a steam-engine invented a self-acting apparatus, which had not suggested itself to Watt and other accomplished mechanicians. The spinning-jenny and the mule were invented by working men; but there is no general principle which regulates the invention of machines of industrial usefulness; many most important mechanical improvements have been suggested by those who perhaps for the first time may have watched the operations of a particular industry. Novelty has often been the prompter of an invention, and improvements in machinery have often, as it were, been forced upon a trade. The practical advantage of the steam thrashing machine was proved long before the farmers could be generally induced to use it. Routine has often so dulled the minds of those who are employed in some special industrial operation, that they are reluctant to understand that any improvement in the processes of a particular industry is required.

but this is doubtful as a general principle.

The invention of machines, however, facilitates the division of labour.

Although division of labour may not be so entirely the cause of mechanical inventions as is sometimes supposed, yet there can be no doubt that a mechanical invention almost always induces a greater division of labour. When a machine is at work there are various operations performed by it which must be separately attended to. The machinery employed in a cotton-mill regulates the extent

to which the division of labour is carried: for every process through which the cotton passes, from the time it is cleaned until it is woven into cloth, must be separately attended to, and thus, division of labour is enforced by the application of machinery. The introduction of new machinery may necessitate a much greater division of labour. Boat-building has not hitherto required any great division of labour. A most ingenious machine, however, has been lately invented by an American, Mr. Nathan Thompson, by which a boat may be completely built in a few hours. If boats are thus built, the nature of the machine will exactly determine to what extent division of labour will be henceforth practised in boat-building, for the distinct operations performed by the machine must be attended to by a certain number of workmen.

Another advantage of division of labour pointed out by Mr. Babbage, viz. classification of labourers.

Mr. Babbage has pointed out a most important advantage resulting from the division of labour which was altogether omitted by Adam Smith. Our former example will most clearly illustrate this advantage. The labourers who are employed in the various operations in pin-making receive wages which vary greatly. Boys can fasten on the heads of the pins with as much facility as men; girls can sort and pack the pins with great rapidity. Some of the other operations of pin-making, such as drawing the wire and pointing the ends, are performed by highly trained and very skilled labourers, and consequently the remuneration received varies from fourpence-halfpenny to four shillings per day; and in other branches of industry there are even greater differences than these. Mr. Babbage states that the various parts of which a watch is composed employ a hundred distinct trades, and the skill required in some of these trades is much greater than in others. A watch-case is, comparatively speaking, a simple article to make, whilst on the other hand, some of the parts on which the accuracy of a chronometer depends, must be so delicately adjusted that only very few workmen ever acquire the refined skill which is needed. These workmen therefore possess a virtual monopoly, and can obtain wages far exceeding any which are usually paid. If there were no division of labour in pin-making, each workman who made the pins must possess the skill which is required for each of the operations. He must be able to sharpen the pins, and the

Economic advantage thus obtained.

labour of a man who can sharpen pins is, as we have seen, worth four shillings per day. Without division of labour the workman cannot spend his whole time in sharpening the ends of pins; he will have to devote a portion of his time to fastening on the heads of pins, and is then doing work which is worth only fourpence per day, thus incurring the most serious waste. Hence a workman would be compelled to produce what was worth only fourpence per day when his labour might produce what was worth four shillings per day. Mr. Babbage has attempted to form some estimate of the loss which would be thus incurred, for he has calculated 'that even supposing a workman could make a pound of pins in the same time in which ten workmen combining their labour can make ten pounds, they would cost in making three times and three-quarters as much as they now do by means of the division of labour.' A still greater loss would be incurred if the mechanician upon whose skill the accuracy of a chronometer depends had to waste his time, and perhaps destroy the delicacy of his touch, upon some of the rougher work by which parts of the watch may be made. Labour is most efficient in the production of wealth when each individual can be employed upon work which is best suited to the skill and physical strength which he possesses. The perfection of modern manufacturing industry makes such a minute division of labour possible, that the labour which is performed can be so apportioned as to suit the capacity of each individual workman.

The division of labour is limited by the demand for the commodities produced.

It has often been remarked that the demand for any particular commodity places a practical limit upon the extent to which division of labour in its manufacture can be carried. There are in this country few commodities in such a position. But to take a hypothetical case; let it be supposed that a pin manufactory is established in a new colony, the population of which is small. If there is such a division of labour that ten men are employed in the manufactory, there would be made, as has been before stated, fifty thousand pins in the course of a day. The colony might only have a demand for half of this number; and hence, if we suppose, for the sake of simplicity, that the colony has no export trade, there will be more pins made than are required. The pin manufactory might be closed during a

portion of the year, in order that a smaller number of pins might be made. But in order to avoid the loss which is always incurred when a trade is carried on at intervals, the pin manufacturer would probably find it more to his advantage to employ a smaller number of men. If only five were now employed, there would not be so great a division of labour, and the labour of the five workmen would not be so efficient, for the number of pins now made in the course of the year would fall far short of one-half of the number previously made, although only double the quantity of labour was then employed. In England there are few things which are manufactured at an increased cost in consequence of the limited demand existing for them. If the stereoscope, for example, were only used as formerly for scientific purposes, and employed, like many other optical instruments, by professors to illustrate the laws of optics, a stereoscope would be far more expensive than it is now. The few which would then be purchased in the course of a year would be made, speaking comparatively, without any division of labour; it would not be worth while specially to apply any machinery to the construction of stereoscopes. But the stereoscope has now become a drawing-room toy, and tens of thousands are probably made every year. The price of stereoscopes has consequently been greatly reduced; so many are now manufactured, that workmen may be employed entirely in constructing them; and each part in a stereoscope may, like the various parts of a pin, be separately manufactured. All the advantages of division of labour can in this manner be secured; the dexterity of the workman is increased; machines, too, will be probably invented specially to facilitate some of the operations in the construction of the stereoscope, and these various operations can now be apportioned amongst workmen according to their skill and capacity. The practical result of this is strikingly exemplified in the fact that a stereoscope which now can be purchased for three shillings could not, a few years since, be obtained for less than a pound.

Combination of labour is as necessary as division of labour.

The efficiency of labour as an agent of production depends as much upon the combination or cooperation of labour as upon its division. Labour may be combined in two different ways, and these have been described by Mr.

Wakefield as simple and complex cooperation. When several workmen combine their labour in the same way to do the same thing, it is called by Mr. Wakefield simple cooperation; and its importance can be readily illustrated. Work has often to be done which requires the strength of a great number of men; a weight may have to be lifted which could not be lifted by any one man. Without such a cooperation of labour none of the works which mark the civilisation of a country could have been accomplished; for unless labourers united their strength and skill, bridges could not be built, railways could not be made, mines could not be dug, and buildings could not be erected. The assistance which labourers engaged in one employment lend to those in another was described by Mr. Wakefield as the complex cooperation of labour. He was the first who adequately explained the most important considerations which arise from such a combination of labour. Political economists, guided by the example of Adam Smith, had previously almost entirely confined their attention to a very subsidiary branch of the subject, namely, the division of labour. We have already indirectly remarked upon the great extent to which different employments combine to assist each other. The manufacture of cotton cloth was mentioned as an example, to show how various are the different classes of labourers who assist in the production of even a simple commodity. We were led into endless ramifications in attempting to trace the different kinds of labour, either directly or indirectly brought into requisition, from the time that the cotton seed is planted in the swamps of Georgia until the cloth is woven in the looms of Manchester. There are distinct sets of labourers employed in tilling the cotton fields, in carrying the cotton to the port, in navigating the vessel in which it is shipped, in unloading the cotton at Liverpool, and then in transporting it to the mills of Manchester. All these different classes of labourers have been directly engaged in bringing the cotton to the place where it is wanted by the manufacturer. It would be vain to attempt a complete enumeration of all the different labourers who have indirectly assisted in bringing the cotton to market. There are the shipwrights who have built the ships, the labourers who have constructed the roads along which the cotton is car-

Case of the manufacture of cotton cloth.

Bearing of the principle of combination of labour upon colonisation.

ried, and the artizans who have made the tools with which the cotton fields are cultivated.

There is, as it were, a tacit compact between each individual and society in general, that the commodities which he consumes will be produced for him by other classes of labourers. If there was not confidence that such a compact would be realised, society would return to its primitive type; for each man would have to live on his own plot of land, and every commodity which he consumed would have to be produced by himself. If this is done in any country to a large extent, the country must be poor and backward. Mr. Wakefield pointed out the important bearing of such considerations upon colonisation. The English Government had frequently encouraged a system of colonisation which tended to impoverish a colony, by impeding this complex cooperation of labour. In order to stimulate emigration, each family obtained from the government a certain area of land in fee-simple, and thus a new colony was dotted over with the isolated settlements of a great number of distinct families, who lived so widely scattered that they could hold but slight intercourse with each other. Each family had, therefore, to produce for itself almost everything it required. Under these circumstances there could be little commerce or trade, and the country necessarily remained in almost a stationary condition. The people in one sense were not poor; for the virgin fertility of the soil supplied them abundantly with the ordinary necessaries of life; but there was an almost complete absence of cooperation of labour. One of these families might possess a superfluity of food: there might be some commodity which, in a particular situation, could be easily produced, yet it could not be exchanged for some other commodity which a family might particularly want, and which it might, perhaps, fail to obtain, even by the application of the greatest amount of labour. A colony in this condition derives scarcely any benefit from such great natural advantages as a genial climate, great mineral resources, and vast tracts of fertile land, as yet untilled and unappropriated. Therefore, Mr. Wakefield emphatically insists that a government, when establishing a new colony, ought not to grant to emigrants settlements of land, far distant, and widely scattered, without at the same time taking steps to encourage the

growth of a town population. The settlements which are granted by the government ought to be concentrated as much as possible, and should, in the first place, be not too remote from the towns. There will then at once arise a cooperation between the industry of the town and the industry of the country. The industry of the town will supply the inhabitants of the country with the commodities which they found most difficult to obtain; and the town population will have an active demand for the food and other natural products which in the country can be raised in such plentiful abundance. The efficiency of labour will thus be greatly increased; for, with such an interchange of commodities, a family which could previously do little more than supply itself with food from a tract of land, can now not only obtain, with the same labour, all the food it requires, but can also purchase from the town population articles of utility and luxury before unattainable. Such a colony will rapidly advance in wealth; roads will be made, and other industrial appliances will be carried out, which will powerfully stimulate the rising commerce.

This principle exemplified in Australia.

It was at first supposed that the gold discoveries in Australia would cripple its agriculture; that labour would be drawn from the farm to the gold mine; that the wages of agricultural labourers would greatly increase; and that under such difficulties agriculture must decline. But although this did in the first instance take place, yet agriculture speedily recovered in Australia, and has within the last few years rapidly advanced. The reason is that the gold discoveries caused the town population to be largely and suddenly increased, and the food which such a town population required was supplied from the agricultural districts. Those who sold the food could purchase, in return, all the products which the commerce of Europe provides; and Victoria has, in a few years, advanced from an aggregation of isolated settlements to the position of a prosperous country, with all the appliances of the oldest and most thriving commercial community. The large yield of gold within the last ten years is generally considered to be the source of the increased wealth of Australia. The gold may have been the primary stimulus of her prosperity; but the gold which has been produced most inadequately represents the extent to which her wealth has been aug-

mented. Not only has all her labour, whether agricultural or not, been rendered more efficient by the increased cooperation of labour which is now practised there, in consequence of the growth of the town population; but even her land has been rendered far more productive of wealth, because, at an earlier period, much of the produce which was obtained from it was not required, and, therefore, could not be accounted wealth.

Combination of labour requires good means of communication.

There cannot be any extensive cooperation of labour between one employment and another, or between one district and another, unless the means of communication are good. Nothing, probably, has more contributed to perpetuate the poverty and backwardness of India than the want of good roads. There, one district can scarcely lend any assistance to another; an interchange of commodities, which would be advantageous to every party, is often prevented by the want of a road. During the terrible famine which ravaged the North-West Provinces, in the year 1860, rice which was in one district at the famine price of four rupees per maund of 83 lbs., was selling in adjoining districts at less than two rupees per maund. As long as such occurrences can take place, India must continue poor, her resources must remain imperfectly developed, and her labour must be comparatively inefficient. A village community virtually isolated from the rest of India cannot now raise that produce for which their land is best adapted, but must cultivate it with a view of supplying themselves with the first necessaries of life. Manchester would, no doubt, annually purchase of India many million pounds' worth of cotton; but cotton will not be produced on any large scale until the people of India feel that if they grow cotton they will be able to exchange it for food. This confidence they cannot have while the roads of India are in such a state that food, which is in abundance in one district, cannot be transported a few miles to alleviate the sufferings of a starving population.

The various functions of capital illustrate the same principle.

The remarks which have been made to illustrate the functions of capital, afford striking examples of the complex cooperation of labour. An individual may save the fund which forms his capital from a great variety of incomes. The wealth which he has thus saved, he will probably embark in a great number of different investments, and in this

way assist the labour of those engaged in the production of various kinds of wealth. Part of his capital will probably be devoted to the trade in which he is engaged; and he will perhaps deposit the remainder with his banker, by whom it would be lent to numerous traders to support them in their business. All commerce, in fact, forcibly exemplifies the cooperation of labour, not only between different employments, but between different countries. England gathers wealth from every quarter of the world, but at the same time she equally enriches the countries which whom she trades.

Arrangement of the subject.

In an earlier part of this chapter, we considered the increased efficiency given to labour, when the distinct operations of any industry are performed by separate sets of workmen. In this case, workmen who are differently employed combine to assist each other in the production of the same commodity, and hence division of labour is an instance of the complex cooperation of labour. We have therefore departed from scientific accuracy in our arrangement of this chapter, and, partly in deference to popular opinion, have given precedence in our remarks to a discussion of the advantages of division of labour. Political economists following in the steps of Adam Smith have restricted the subject of the division of labour to its narrow sense. The reason of this may perhaps be, that the illustrations used by Adam Smith have made the division of labour one of the most popular parts of political economy; and thus its importance, compared with other portions of the subject, has been greatly exaggerated.

CHAPTER VI.

PRODUCTION ON A LARGE AND SMALL SCALE.

IF we had not feared that the last chapter was becoming too long, we should not have placed the subject we here propose to discuss in a separate chapter, because the carrying out of production on a large and small scale exerts a very powerful effect upon the productive powers both of land, labour, and capital.

Comparative advantages of production on a large and small scale.

The comparative advantages of production on a large, and production on a small scale, depend upon conditions which may vary greatly at different times, and in different employments. Every extension of machinery no doubt tends to give an advantage to production on a large scale. In the days of hand-loom weavers, little would have been gained by gathering them together into large buildings, such as the mills of Manchester. Each hand-loom weaver worked for himself; he needed not the assistance of others, and therefore there was no reason why he should not work in his own cottage. But the introduction of machinery has divided the work which was previously done by the hand-loom weaver, into a great number of distinct operations; and in this way machinery renders production on a large scale absolutely necessary. But to what extent it is advantageous to increase the scale of production, whether it is more profitable to erect a mill containing 10,000 spindles, or two mills containing 5,000 each, will be most correctly determined by those engaged in the trade. The comparative economy of working large and small mills is sure to be quickly ascertained by the manufacturers themselves; there can, however, be no doubt that a small manufactory will have little chance of competing with a large one, if the small manufactory is not large enough

Advantages of large manufactories.

for the efficient working of the most complete machinery used in the trade. Again, a small manufactory cannot compete with a large one, if in the one there is a less complete division of labour than in the other. A pin manufactory which employed ten men would produce pins at a much smaller cost than a manufactory in which only five men were employed. The labour of superintendence generally forms a comparatively larger item in small concerns than in large ones; for instance, each room in a cotton mill may require an overlooker, whether a hundred men are working in the room, or two hundred. A steam-engine must be constantly watched by an engineer, whether the engine is fifty-horse power, or a hundred-horse power; but all such questions concerning the greater or less economy of business arrangements will ultimately be decided by practical experience. There is at the present time a very decided tendency to increase the scale of production, and this tendency is particularly shown in those vast manufactories and warehouses which exemplify the wealth and energy of Lancashire and Yorkshire; hence we must conclude, that production on a large scale, especially in the manufacturing districts, is rapidly becoming more advantageous. In fact, we have ascertained that a cotton mill containing 10,000 throstle spindles can be worked with a capital of 20,000*l.*, whereas a mill with 5,000 spindles requires a capital of not less than 11,000*l.*

The scale of manufacturing operations is limited by the demand.

It was remarked in the last chapter that the extent of the demand places a limit upon the division of labour. But the extent of the demand influences in a much more decided manner the scale in which the production of any commodity can be carried on. A very serious loss would be incurred if the demand for any commodity was not sufficient to take off all that might be produced by the machinery and plant erected for its manufacture. Machinery when unemployed is capital lying idle, and the workmen when thrown out of employment could only be kept together by paying them some portion of their wages. This again would be capital wasted, and if the labourers were not thus kept together, when work was resumed new and untrained hands would have to be employed. Machinery also, if kept idle, frequently suffers great injury. The fluctuation in the demand, when

it is small, is comparatively much greater than when the demand is large.

Production on a small scale may maintain itself, though at a disadvantage.

Even if production on a large scale is very advantageous, production on a small scale may still be very much practised. Let us again use our previous example. and suppose that a cotton mill containing 20,000 spindles can be worked at a much cheaper rate than one containing 5,000; but a capital of nearly 40,000*l.* may perhaps be required to work a mill with 20,000 spindles, whereas a capital not much exceeding 11,000*l.* would probably suffice for a mill with 5,000 spindles. The number of individuals who possess a capital of 40,000*l.*, and who are willing to invest it in a cotton mill, is very limited, and therefore there can only be a limited number of mills with 20,000 spindles. These mills may not suffice to spin all the cotton for which there is a demand, and therefore other and smaller mills must be worked. It is true that the small mills could not remain open if they had to compete with an unlimited number of large mills; but as the number of these is virtually restricted, the small mills may be still worked at an advantage, although the profits obtained by these mills may fall far short of the profits obtained by the larger ones. Large capitals thus obtain an advantage, and possess as it were a monoply; we shall treat this subject at considerable length in our chapters on profits.

The advantages of production on a large scale only partly attainable by joint-stock companies,

It may naturally be supposed that, in a wealthy country like England, production on a large scale when advantageous will never be restricted by the causes to which we have just alluded, for it may be said that if the individuals who have sufficient capital to work large mills are limited in number, there will be no difficulty in gathering together the requisite capital by means of joint-stock companies, and that such companies will avail themselves of the advantages of a large production, and thus drive the small producers out of the market. But joint-stock companies labour under many difficulties; and although they secure the advantages of producing on a large scale, yet in many industrial occupations, joint-stock companies cannot compete with the energy of the individual trader or manufacturer. Such works as railways, docks, and canals require, both for their construction and main-

tenance, a capital far greater than that possessed by any individual, and therefore such undertakings must be carried out by joint-stock companies. But if a joint-stock company conducts some ordinary business, there is wanting that energy and watchfulness which an individual exercises when a business is his own. If competition is active, a business cannot be successful unless all its operations are conducted with energy, and unless economy is secured by constant vigilance. In a joint-stock company all depends upon the manager or agent. The individual shareholders are not sufficiently interested to take any part in the management of the concern. Men can very rarely be found who are as careful with other people's property as they would be with their own. The manager of a company may do nothing which is in the slightest degree dishonest, it may be impossible to single out any particular instance in which he has neglected to do his duty, yet the position in which he is placed will not probably call forth those qualities which not only distinguish the good man of business, but which also cause the success of commercial undertakings. If the manager is partly remunerated by a share of the profits realised, he will no doubt be stimulated to much greater exertion. Joint-stock trading companies have frequently failed, because those concerned in their management have not a sufficiently strong pecuniary interest in their success. There can be no doubt that individual employers suffer most serious losses from the listlessness and apathy of their workmen, although such employers have the strongest motives to prevent neglect of work by their labourers; the losses however which are thus incurred will be still more serious in the case of a trading company, when the labourers are only watched by a manager, who is comparatively uninterested. A joint-stock trading company would even be more benefited than the individual trader, by adopting some course, if it were practicable, which would give the labourers a pecuniary interest in their work, for in this manner the energy and skill of the workmen might with greater certainty be secured. Joint-stock companies have always experienced the greatest obstacles in retail trades, where the transactions are numerous and small. The petty details of such business seem

owing to the want of interest in shareholders and managers.

particularly to require the energy of individual management.

Special advantage of cooperative societies.

The cooperative societies however, which have lately assumed so much prominence in the north of England, are joint-stock companies; the capital is supplied almost entirely by the labouring classes, and therefore the number of shareholders is extremely large. Yet these societies have not only established cotton mills, but have engaged with the most remarkable success in the ordinary retail trades, conducted by grocers, drapers, bakers, butchers, &c. The success of these societies not only proves that the disadvantages of the joint-stock system have been much exaggerated, but also indicates how the most prominent of these disadvantages may be overcome. The prosperity of the cooperative stores is probably mainly due to the ready-money system which they almost invariably adopt; the smallest sum is consequently rarely lost in bad debts. But the cooperative manufactories only differ in one important respect from ordinary joint-stock undertakings; the labourers in these mills share a certain proportion of the profits realised. This provides an effectual antidote to the disadvantages of the joint-stock system, and fully accounts for the success which these cooperative mills have achieved.

The extension of the joint-stock system desirable.

It is in every respect advantageous to a country, that the joint-stock system should be encouraged; it greatly promotes the production of wealth. Small capitals which, if separately applied, would do little towards the production of wealth, are brought together by joint-stock companies, and accomplish industrial works of the utmost importance. A thousand individuals who have saved 100*l.* each, may not have the time, capacity, or inclination themselves to employ the money in any business. If each of these individuals subscribed his 100*l.* to one common fund, a capital would be created sufficient to work a large Manchester manufactory; they would become proprietors and promoters of a great commercial concern, annually producing a large amount of wealth, and annually employing many hundreds of labourers.

Large and small farming.

The relative advantages of large and small farming have long been one of the most controverted points connected with the subject of this chapter. In England, agriculture

has no doubt, within the last few years, been conducted on a much larger scale than formerly. In the best cultivated districts of England, each farmer generally rents not less than three or four hundred acres. In many parishes the land which is now cultivated by one or two farmers was, within the memory of those who are still living, parcelled into twenty or thirty distinct holdings. We will first point out some of the obvious advantages which arise from large farming. The extended use of agricultural machinery has been a prominent feature of that great improvement in the cultivation of the soil which has taken place within the last few years. Twenty years since the greater portion of the corn grown in this country was thrashed by the flail; now steam-thrashing machines are used in every district, and the flail has been almost banished; even agricultural labourers rejoice in the change, and confess that they should most reluctantly resume the use of the flail; the young men of the present day would probably not submit to such monotonous work. Steam cultivation is each year rapidly extending. A much greater proportion of the farmers' capital is consequently now invested in machinery than formerly. A good steam-thrashing machine costs nearly 400*l.*; small farmers cannot afford to avail themselves of all this improved and expensive machinery. Not only can they not afford it, but a steam-thrashing machine requires for its working something more than the resources which a small farm can supply; its working must be attended to by eight or ten men; the corn is taken from the stack by two men, another man has to feed the machine with corn; the engine must have an engineer; the straw must be carried away by one man, and stacked by another; another man must take the grain from the machine, and another again will have to carry water to the engine. It is true that a great many even of the large farmers do not now own, but hire the steam-thrashing machines which they use; such a plan, however, is extremely uneconomical. A farmer who hires such a machine cannot always obtain it at the exact time he may require it; those who let the machine must make a profit from those who hire it, and for several reasons a high charge must be paid for the use of the machine. There is the expense of taking it from one farm to

Advantages of large farming.

Agricultural machinery more available.

another; it is earning nothing when being so moved, and the wear and tear caused by dragging it along the roads is very considerable. But a small farmer who hires such a machine is under still greater disadvantages, for he not only has to hire the machine, but must also hire the men to work it, since he has not enough men in his own employment. Men who are hired in this irregular way must be paid more than the ordinary labourer, whose employment is constant, for they have to sacrifice much time in moving from place to place in quest of this irregular employment. Such a farmer will not be able to thrash his corn at the time most convenient to him; he must thrash it when he can get the engine and hire the men.

Fields are larger,

Small farming generally involves small fields; these fields will be surrounded by hedges, and must be approached by roads, and thus a great deal of land is wasted; the disadvantage of small fields will be greatly increased when steam cultivation is introduced. The steam plough requires considerable breadth of land upon which to work; at every turn that the plough makes, time is lost; after the centre of the field has been ploughed, the headlands will remain to be ploughed separately; the labour of moving the engine from field to field is considerable; much time may be thus wasted, and in fact it has been calculated that a steam-cultivator would plough a square field of ten acres in half the time occupied in ploughing two fields of five acres each, and at two-thirds of the expense.

and labour frequently more productive.

Many kinds of labour on a small farm are less productive than on a large one. Thus a flock of 400 sheep requires as many shepherds as a flock of 800. Each farm has a carter, whether the farm is 300 acres, or 600 acres. Again, much of the time and energy of a small farmer is frequently wasted, for he would often be able to superintend his farm quite as well if it were larger.

These and many other considerations show that large farming now possesses advantages over small farming, and that these advantages are destined to become more decided as the use of agricultural machinery is extended. Under large farming labour can be made to work with greater efficiency; capital can be applied with greater effect because it can be converted into the most complete machinery, less

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Advantages of small farming.

land will be wasted in useless hedges, and thus large farming tends to make labour and capital more efficient.

The advantages which have been here attributed to large farming mainly refer to the cultivation of corn. In the growth of various other products, and especially in dairy farming, many most important advantages are associated with small farming. A traveller on the continent must have remarked that the olive, the vine, and other such products which require great care, it may be almost said tenderness, in their cultivation, are most frequently grown by small farmers; the reason of this is, that the cultivation of products requiring such watchfulness and skill could not be trusted to the careless apathy which so frequently characterises the hired labourer. It is seldom that anyone but a mother will bestow the tender care a child needs, and the vine will be seldom properly cultivated except by one who has that interest in it which can alone be derived from the feeling of ownership. Even in England there is a similar advantage associated with small farming; for all the operations of a small farm may be attended by the kindly interested watchfulness of the farmer himself, and this advantage is more prominently shown in those farming operations which require great care. A dairy, for instance, needs a constant attention which the large farmers of the present day have not time or inclination to bestow; hence, if there is a dairy attached to a corn or sheep farm, the large farmer will generally underlet his dairy; the farmer supplies all the food for his cows, and the person to whom the dairy is let has every motive to give his whole and undivided attention to those minute details upon which the success of a dairy depends.

The question of large and small farming is often incorrectly confused with the consideration of small landed properties. This subject will be discussed in some of the succeeding chapters of this work.

CHAPTER VII.

ON THE LAWS WHICH DETERMINE THE INCREASE OF PRODUCTION.

Conditions of an increased production of wealth.

WE have in the two previous chapters discussed some of the causes which determine the productiveness of land, labour, and capital; we have shown, for instance, how the productiveness of land may be increased by good systems of farming, and how the efficiency of labour and capital may be promoted by machinery and by a proper combination of labour. But if the land, labour, and capital of a country are in the most efficient state of productiveness, the production of wealth can only be increased by increasing either the land, labour, or capital; for if when the land in cultivation is in the highest state of tillage more produce from the land is required, it must be obtained by bringing a greater area of land under cultivation. Again, if all the labour which is employed is in the highest state of efficiency, a greater quantity of wealth cannot be produced unless the labour of the country is in some way increased; similarly, if the capital existing in a country is applied to the greatest advantage, and if it supports the greatest number of labourers it is capable of doing, more labour cannot be employed, and as a consequence more wealth cannot be produced unless the capital of the country is in some way increased. Hence the laws which separately regulate the increase of land, labour, and capital, are the laws which combine to determine the increased production of wealth. We therefore intend in this chapter to discuss the laws on which depend the increase of land and labour; the next chapter will be devoted to a consideration of the laws which determine the increase of capital; and there-

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fore the two chapters will complete our investigations concerning the laws which combine to regulate the increased production of wealth.

Fresh land may be cultivated,

The area of each country is limited, but, nevertheless, each country possesses much land which is not cultivated. It would therefore seem that, as far as the production of wealth is concerned, each country has the power of increasing the area of its cultivated land. But land sometimes remains uncultivated because it will not pay the expense of cultivation; if this is so, it would appear that the area of cultivation cannot be extended, because no individual would be willing to cultivate land at a loss. In explaining what will take place under such circumstances, we shall introduce to our readers some of the considerations upon which depend the theory of rent, a theory perhaps the most important and the most rarely understood in the whole range of economic science.

That land, as a general rule, remains untilled because it will not pay to be cultivated, is a proposition which we wish the reader to bear steadily in mind. Whenever, therefore, fresh land is brought into cultivation we must suppose that something has occurred which will cause the land to pay for cultivation better than it did before. Agricultural improvements have frequently enabled land which was before unproductive to pay a considerable rent. Thus, the present fertility of Norfolk is in a great measure due to the introduction of the turnip; this root enables large flocks of sheep to be kept, which have fertilised what was before a poor soil. At one time Salisbury Plain was a great tract of down land which paid scarcely any rent, but now, with the assistance of artificial manures, luxuriant crops of corn are grown there. Much of the rich fen land of the Isle of Ely, which is now rented at 3*l.* an acre, was forty years since a worthless marsh. In these cases the productiveness of the land has been increased by special improvements. Cases, however, have frequently occurred, and are now constantly occurring, where more land is brought under cultivation, not in consequence of agricultural improvements, but because there is a greater demand for the produce which is raised from the land. If the population of a country increases, its people will require a greater quantity of food; and this food must

owing to agricultural improvements,

or increased demand for

food and increased value of produce.

be obtained either by making the land which is already in cultivation more productive, or by extending the area of cultivation. If at the time this increased demand for food arises there are no particular agricultural improvements to be suggested, the enlarged demand must be supplied by cultivating more land; but as this land did not previously pay for cultivation, and as it would not now be cultivated if it did not pay for cultivation, it therefore follows that the value of agricultural produce must rise in order that the farmer may realise an adequate amount of profit. Since land previously untilled is now supposed to be cultivated, the production of wealth, as we have before remarked, is increased in consequence of the greater demand which has taken place for food. It is not alone the land thus brought into cultivation which is made more productive, but all the land of the country becomes more productive of wealth; for although there is not a greater quantity of produce raised from it, yet the value of the produce is enhanced by the increased demand for food. All the effects here attributed to an increase of population are strikingly exemplified in the progress of a prosperous colony. No one can doubt that many of the great natural pastures of Australia, which now scarcely pay any rent, will in the course of time be cultivated and rented as valuable agricultural land. Within the last few years the area of cultivation in Australia has rapidly extended. From 1851 to 1861 the population of Victoria increased from 80,000 to 500,000. The increased quantity of food which is now consumed in Victoria has caused more land to be gradually brought into cultivation; the value of agricultural produce must consequently have risen, because land which is in cultivation now would not have repaid its cultivators when the population of Victoria was so very much smaller.

As the value of produce rises less productive soils are cultivated.

Although we have thus shown, *à priori*, that the value of agricultural produce must rise when the demand of a larger population causes more land to be brought under cultivation, yet it will assist the reader, if we explain the primary causes upon which this rise in value depends. Every country possesses land which varies greatly in productiveness. In estimating the productiveness of any par-

ticular land it is necessary not only to consider the fertility of its soil but also its accessibility, or in other words, its convenience of situation. Some of the most fertile land in the world is so remote from any population which requires its produce, that its cultivation would prove unremunerative, and therefore it may be regarded as unproductive of wealth. Confusion frequently arises because a productive soil and a fertile soil are regarded as synonymous expressions. In an economic treatise, however, it must be always carefully remembered that not only fertility but also convenience of situation are included when the term "productive" is applied to land.

The meaning of the word "productive" as applied to land.

Bearing these remarks in mind, it is evident that the productiveness of land varies inversely with the quantity of labour and capital required not only to raise a certain amount of produce, but also to bring the produce to the situation where it is required. The most fertile land, if extremely remote from the population which is willing to purchase its produce is frequently unproductive, because of the great expense which cost of carriage would involve. As the population increases, the area of cultivation is extended, and less productive soils must be resorted to; or, in other words, land is gradually brought into cultivation which does not return so much for the labour and capital expended upon it, as land which was previously cultivated. Hence the production of wealth cannot be indefinitely increased, because the returns to labour and capital diminish, as it becomes necessary to resort to less productive land. This principle forms the basis of Ricardo's theory of Rent.

An increased demand for food tends to increase the value of agricultural produce.

The proposition just enunciated suggests an obstacle which more or less impedes the continual increase in the production of wealth. The reader, for several reasons, finds it difficult adequately to appreciate the magnitude of the impediment which in many countries is thus placed upon the production of wealth. We shall have occasion frequently to recur to this subject; we may, however, here make a few more remarks upon it with advantage. It may be thought that although less productive land requires more labour and capital, yet the general value of agricultural produce will be but slightly affected. For it may be urged that the productiveness of the land which was previously cultivated will not in any way be diminish-

ed, on account of the more expensive culture required by the less productive land, which is now resorted to. A portion only of the produce which is raised from the land will require a greater outlay of labour and capital, the productiveness of all the remaining land will be unchanged, and hence it may be argued that no serious impediment can be caused to the production of wealth. We must repeat, that when an increased demand for food brings less productive land into cultivation, this food is obtained at a greater cost of labour and capital, and therefore food becomes more expensive. But the value of wheat of the same quality does not vary, when brought to market, because one sack of wheat has been produced at a greater cost than another; of course this is matter of no consideration to the purchaser, but simply to the growers of wheat. If therefore it is necessary that the price of wheat should rise, in order to make the cultivation of inferior land remunerative, the price of all the wheat grown must rise in a similar manner, and food consequently becomes more expensive. If by these causes the price of wheat is raised, it is manifest that the farmers who cultivate the more productive land must derive a great advantage, because the produce which they obtain does not require more labour and capital, and yet its price is materially increased. The farmers however cannot in the long run appropriate this advantage to themselves, as the landlords secure it in the form of increased rent. A further discussion on this branch of the subject would involve an explanation of the theory of rent; and this theory does not properly belong to the production, but to the distribution of wealth.

The important proposition we wish to establish concerning the production of wealth is, that an increased demand for food has a tendency to make food more expensive, and as such an increased demand is almost always caused by an increased population, we may enunciate the principle thus: that as population advances, food has a tendency to become more expensive. In the enunciation of this principle, we have employed the word tendency. We believe that an example may be thus afforded, which will illustrate the great importance of enunciating almost all the principles of political economy, as exerting tendencies, rather than as producing immediate results. This has not been

Political economy explains the tendency of certain events rather than their actual immediate results.

sufficiently recognized, and consequently the progress of political economy has been greatly retarded, and much prejudice and incredulity has been raised in the minds of practical men towards the conclusions of this science. In mathematics a force is measured by the effects which it has a tendency to produce, i.e. which it would produce if not counteracted by other forces. The force of gravity is estimated by the space through which a body would fall in a second of time, if it was acted upon by no other force; this space is sixteen feet; all bodies, however, do not so move, although every particle of matter is acted on by the same force of gravity. A feather floating in the air is attracted by the force of gravity, and yet it does not fall through sixteen feet in a second of time; the feather does not fall through this space because the downward motion of the feather is retarded by the resistance of the air. Although the force of gravity is thus partly counteracted, it is not either destroyed or rendered nugatory; its effects may appear to be different, but the force of gravity always exerts a tendency, whether the tendency be counteracted or not, to make a body move through sixteen feet in a second of time. It would be very unreasonable to assert that the theory of mechanics was erroneous, because other forces intervene and modify the effects attributed to the action of a certain force. The distrust which is sometimes shown towards the principles of political economy is equally unreasonable; these principles attribute certain effects to certain causes, but the effects will be altered, if the causes are modified; these causes, like the forces in mechanics, are often affected in their operation by many disturbing agencies. For instance, we have enunciated as a principle that the tendency of the increased demand of an advancing population is to make food more expensive. Political economy however is not in error, because circumstances may occur which will counteract this tendency; we are all aware that this tendency towards higher prices has been and may be again counteracted; that agricultural improvements, for instance, have often been introduced, which have enabled the increased wants of a larger population to be supplied without any rise in the price of food.

Why the price of

The population of Great Britain has increased 4,500,000 since 1841, and yet the price of wheat is on the average

lower now than then; but this fact does not falsify the principle we have above enunciated. The circumstances which have prevented a rise in the price of wheat are patent to all. Before 1848, we were in a great degree restricted to our own soil for our supplies of corn. Now we are freely permitted to purchase wheat from any country which offers it for sale. As many as eight million quarters of wheat are often imported in one year; and with better means of communication even such remote countries as the Punjab and California will regularly export wheat to Great Britain. The influence therefore of free trade has been analogous to that which would have been exerted if a tract of fertile land had been added to the cultivable area of this island. Suppose that, in consequence of the great abundance of fertile land in the valley of the Mississippi, wheat grown there could be sold in our markets at a less price than would adequately remunerate the English agriculturist if he grew wheat on many of the less productive farms in England. Under these circumstances the valley of the Mississippi would, as far as the supply of wheat is concerned, serve England the same purpose as if a tract of fertile land could be added to her shores. We are quite ready to admit, that the effects attributed by political economy to one particular cause, seldom occur with strict exactness; such perfect conformity could not take place unless the cause acted alone, and this is very rarely the case; the practical utility of political economy however is not for this reason lessened, for the science demonstrates that certain results must ensue, if a counteracting influence does not come into action. We will illustrate our meaning by referring to an argument, which we believe is unaswerable when urged in support of free-trade. The population of England is advancing; if we are restricted to our own soil for supplies, then food will be obtained at a greater cost of labour and capital, and food must ultimately become much dearer. It therefore becomes most important that the fertile soil of the whole world should, as far as possible, be made available to supply us with the produce we may require.

Wheat has not risen in England.

We must next consider how the production of wealth is affected by an increase in the amount of labour, or, in other words, by an increase in the number of the

Increase in the labouring population.

labouring population. Labour is increased when it is made more efficient. If a machine is introduced which enables one labourer to do the work of six, of course the amount of labour in the country is augmented, but this increase is due to improvement in the efficiency of labour, a subject which was considered in the last chapter. We must here therefore restrict ourselves to a discussion of the consequences which result, when an increase in the number of the labouring population causes more wealth to be produced. If a greater quantity of any commodity is required, a greater number of labourers must be employed, unless some industrial improvements are introduced. Suppose, for instance, there suddenly arose a very active demand for English cottons in China; a much greater number of labourers would soon be engaged in cotton manufactories. It may be asked, How is the increased number of labourers to be obtained? Surplus hands will be drawn from other employments, and emigration will be checked, if there is a great demand for labour. If the demand for additional labour continues, an increase of population will be powerfully stimulated, and the labour required will ultimately be supplied principally from this source. It is important to point out in what manner an increase of population is promoted by an active demand for labour.

Influence of a demand for labour upon the amount of population.

Labour is in demand when trade is good; then wages are high, and the labourers are prosperous. It is found that the number of marriages amongst the poorer classes is invariably much greater when the labourers are prosperous. There is no surer test of the prosperity of the labouring class than the low price of bread, and there are few statistical facts better substantiated than that the marriages amongst the labouring class increase with the fall in the price of bread. It may be reasonably assumed that wages are high when trade is good. But from what source are these higher wages supplied? It must be from the capital of the country, because this is the fund from which the labourers' wages are provided; the circulating capital employed in any trade or manufacture must be increased if the labourers engaged in it received higher wages. We may here generally remark, that when a trade is active the profits are high, and thus a great inducement is offered to those engaged as employers in the

trade, not only to save more, but to apply a greater amount of capital to their business; thus additional capital is either borrowed or is withdrawn from other investments. But now, having pointed out some of the sources from which an increased number of labourers will be obtained, we have next to consider how this increased population will be fed. We have just remarked upon some of the sources from which the additional wages paid to the labourers will be supplied when an active trade causes a greater demand for labour. Let us suppose, therefore, that when the labouring population has increased, the circulating capital of the country has been proportionately augmented; but if there is a larger population, more food will be required, and the important question arises, Under what conditions is this food to be obtained? In answering this question we avail ourselves of that principle which has been stated in the first part of this chapter, namely, that there is a tendency for food to become more expensive as the demand for it increases, because less productive land has to be resorted to, the returns from which are not so large in proportion to the labour and capital expended upon it.

Relation between increase of population and increased production from land.

The production of an increased quantity of wealth requires a greater number of labourers, and when the labouring population is thus augmented food will become more expensive, unless the additional food required can be obtained either by agricultural improvements, or can be imported at a comparatively cheap rate from other countries. All that we have here stated is strikingly exemplified by the events which have occurred within the last few years. The trade of the country has advanced with marvellous rapidity, the number of labourers now engaged in the manufacturing industry of this country greatly exceeds the number employed twenty years since. The capital invested in our manufactures has even advanced more rapidly than the increase of population. Not only are there more labourers, but the wages of these labourers have risen very decidedly within the last few years. Two causes, therefore, have combined to increase the demand for food, namely a larger population and a better paid labouring class. This increased consumption of food is abundantly verified by the import tables; although

Exemplification of these principles in late years.

England's own soil has been made far more productive, and much more land has been brought under cultivation, yet the importation of all the common necessaries of life consumed by the labourers has been largely augmented. But it may be said, political economy would predict that, in consequence of such a demand, all food will become more expensive; and yet bread is cheaper. Now, however, as we have before remarked, we have the whole world from which to obtain our supplies of wheat, and the cost of carrying wheat from one country to another is comparatively small. There has, however, been a most decided rise in the value of those articles of food which we cannot with such facility obtain from other countries. For instance, it is much more difficult and much more expensive to import meat than corn. Meat must reach a scarcity price in England before it would be remunerative to send cattle and sheep from even the eastern shores of America, and yet corn has this year been imported with considerable profit from the remote regions of California. Since, therefore, we are to a much greater extent restricted to our own soil for meat and dairy produce, importation has not been able to counteract that rise in the price of these articles which, according to political economy, must accompany the increased consumption of a more numerous and better paid labouring class, and the result has been that meat and dairy produce have become fifty or sixty per cent. more expensive within the last few years. In all probability the labouring population will for many years continue to increase; every year therefore a greater quantity of food will be consumed in this country; the mode in which this increased supply of food will be obtained must mainly determine what will be the future condition of our labouring population. If the opening of new sources of foreign supply and the introduction of agricultural improvements should enable an increased quantity of food to be procured without any advance in its value, then a larger population may be maintained in an improved material condition. If on the other hand foreign importations and agricultural improvements should not exert a sufficiently powerful influence to check a rise in the value of food, as the demand for it increases; or in other words, if resort must be had to less productive soils in order to supply the wants of an increasing

The cost at which an increased supply of food can be obtained will mainly determine the condition of our la'ouring population.

population; then the condition of the labouring population will gradually but steadily deteriorate. In a future chapter upon the poor law we shall point out that the increase of pauperism in this country, in the last few years, would almost seem to indicate that our population has so much increased that its maintenance now involves a greater proportionate expenditure.

CHAPTER VIII.

ON THE INCREASE OF CAPITAL.

Increased production of wealth implies an increase of capital,

IN the preceding chapter we have remarked upon some of the more prominent conditions which determine the increased production of wealth, as far as it depends upon an increase of the cultivated land, and upon an increase in the number of the labouring population. But larger production also requires an increase of capital. It must be evident, from the remarks we have made upon capital, that an increase of capital is as essential to a larger production of wealth as an increase of land and labour. If land, for instance, is more highly cultivated, additional capital must be applied to it: and new land cannot be brought under cultivation without the application of capital to it. If more labourers are employed, a larger fund, in the form of circulating capital, must be devoted to pay their wages. Improvements in the process of industry cannot be introduced without the expenditure of capital. Machinery, warehouses, manufactories, railroads, ships, all such industrial appliances as these, exhibit the various modes in which the fixed capital of a nation assists her industry.

and, therefore, increased saving,

We have previously asserted as a fundamental proposition that capital, whether fixed or circulating, is the result of saving. Increased capital, therefore, implies increased saving; and hence we may determine the laws which regulate the increase of capital by considering the causes upon which depend the increased saving or accumulation of wealth. There are two principal motives which induce men to save; and these are, first, a prudent foresight with

regard to the future; and, secondly, a desire to make wealth by an advantageous investment. The first motive is by far the more powerful. To its action has been due the greater part of all wealth which has been saved. But the second motive is the chief cause of fluctuations in the amount of a nation's capital. Whether the amount of capital at any time existing in the country is above or below the average is almost entirely determined by the profit which it may be thought capital will realise. This profit may be estimated by the current rate of interest. But in political economy, as in many other sciences, the causes which produce the disturbing fluctuations require a more careful investigation than those causes whose action is more constant, and more undeviating. The earth when revolving in it orbit is acted on by a great number of forces. It is attracted by every body in the planetary system, yet these forces combined are almost immeasurably inferior to the force of attraction which is exerted by the sun. Most important mathematical investigations, however, depend upon the action of these disturbing forces. Similarly, in political economy, the effects of the more constant causes can be readily estimated; but causes more varying in their action introduce fluctuations and disturbances which must be investigated and classified by the scientific principles of political economy.

which may be due to two motives —foresight and desire for profit.

As civilisation advances the desire to accumulate wealth increases, and foresight for the future becomes more general. The more men's intellectual and moral faculties are developed, the more careful will they be to make a reasonable provision for the future. The Jesuit missionaries, who a century since formed a settlement in Paraguay, found the great difficulty they had to contend with was the utter recklessness of the people. The missionaries gave them seed. They knew that this seed would, if sown, in a few months yield them a plentiful supply of food, yet they could not be restrained from eating the seed instead of sowing it; the smallest present enjoyment was by them preferred to the greatest prospective advantage. People in such a condition can be very little superior to the more intelligent animals, whose hereditary instincts induce them to provide against danger which

Importance of the desire to accumulate wealth.

they may have to encounter. Birds build nests which are most perfectly adapted to protect their young; beavers construct their habitations on a plan so admirable that it seems almost to rival the skill of man; and even dogs collect a store of food to which they will resort when pressed by hunger.

Its strength in England.

In England the desire to accumulate wealth acts with great force amongst certain classes. It is impossible accurately to define the causes which regulate the amount saved by any individual, but it may be stated generally that in England each class of society has a recognised standard of living which involves a certain expenditure, and the whole of an individual's income which is in excess of this expenditure is usually saved and invested with great care. The amount which is saved is, therefore, partly dependent at any particular time upon the material prosperity of the country. If activity of trade or any other such circumstance should increase the incomes of any particular class, the annual incomes of this class would be augmented; there would be a larger fund from which savings might be made, and more would be saved. Habit, far more than the amount of an individual's means, usually determines his expenditure. Any circumstance, therefore, which tends to augment the wealth of the nation, will induce increased saving.

The amount of saving is partly determined by the cost of the articles consumed.

It may also be remarked that the amount of an individual's expenditure is to some extent determined by the cost of the commodities which he consumes. The consumption of some articles diminishes in proportion to the rise which may take place in their price. It has, for instance, been found that when the sugar duties were raised beyond a certain amount, they did not produce a larger revenue. A rise in the price of sugar induces large numbers to give up its use. Such articles, however, as tea and bread, are, in this country, almost universally regarded as necessaries of life; and the quantity of tea and bread which is consumed by those classes who accumulate the capital of the country, is not materially affected by a variation in the price of these commodities. If, therefore, bread and tea decline in price, household expenses of the middle and upper classes will be diminished, and a larger portion of their income will remain to be saved

as capital. We mention this as applying particularly to the middle and upper classes, because there is no doubt that our labouring population would gladly consume a greater quantity, even of the ordinary necessaries of life, had they the means of purchasing them. If the price of tea is reduced one-half, the labourers will probably continue to spend upon this article as much as they had previously done; they would spend less upon bread if its price was reduced, but the amount which they thus saved would not, as a general rule, be invested by the labourers as capital, but would be applied to satisfy some of the many wants of life, which they have not the means of gratifying. The labourers therefore are benefited in two distinct ways, by the cheapening of any article of ordinary consumption. They have, in the first place, to pay less for it when they purchase it, and secondly, the cheapening of such a product has a tendency to augment the capital of the country, by enabling the middle and upper classes to increase their savings, and the labourers will receive higher wages if capital is increased.

Causes of fluctuations in the amount of saving.

We have however before remarked, that the fluctuations in the amount of capital which is saved, depend upon the nature of the opportunities which present themselves for investment. If the profits which can be realised upon capital increase, a greater inducement is offered to save, and a larger amount is sure to be saved. From such a source, either directly or indirectly, any large increase of capital which may be required is mainly supplied. At any particular time there is a certain interest upon capital which people expect, and with less they will not be satisfied. But it will perhaps be said, what does a capitalist do with his capital; if he wants 3½ per cent. interest and can only obtain 3 per cent., he will not squander it because he is not satisfied with so low a rate of interest; will, therefore, less wealth be saved? Less no doubt will be saved, because a low rate of interest offers less inducement to save; the most important point however to be borne in mind is, that a much smaller portion of the wealth which is saved will be invested as capital in our own country, when the rate of interest is low. England, far more than any other country, offers a striking example of the vast amount of capital which the people are ready to invest, if a favourable

BOOK I. CH. VIII.

Foreign investments.

opportunity presents itself. When the government requires a loan, many millions are at once subscribed, without encroaching in the slightest degree upon either the circulating or fixed capital of the country. The loan is not altogether supplied from capital which was previously unemployed, but England has vast sums invested in almost every civilised country. Magnificent as are the tokens of England's wealth which surround us on every side, yet our manufactories, our railroads, our mercantile marine will not give us an adequate idea of England's riches, unless we remember that there are few countries either in the new or the old world that are not our debtors. Russia, Turkey, India, Australia, Canada, the United States, the Republics of South America, all have satisfied their state necessities, by loans supplied from English capital. But it is not only foreign governments who borrow from us; a vast number of the foreign speculations have been supported by English capital. A considerable number of the railroads throughout the world have been made by English capital; the Grand Trunk Railway of Canada has absorbed 15,000,000*l.* of English capital. The railways, irrigation works and roads of India have been constructed by English capital, and some of the richest mines in South America have been worked by English companies. Consequently only a small portion of the wealth which is annually accumulated in England is retained to be invested in this country. If, therefore, England requires a greater amount of capital to extend any branch of trade or to carry out any public work, she can supply an amount which is practically unlimited. If, for instance, there was such an expansion in our cotton manufacture, that 100,000,000*l.* of additional capital was required, it would be readily obtained, by placing a check upon the investments of English capital abroad. The amount of capital, therefore, which is applied to the production of wealth in this country, does not depend so much upon the amount which is saved, as upon the proportion retained by the country itself of all the wealth which is saved. The relative amount of English capital which is invested at home and abroad is regulated by many considerations, the chief of which is, the rate of interest which can be obtained at home compared to that which can be obtained in foreign

countries. We must postpone the further discussion of this most important subject, until we reach those chapters which treat of profits.

Economical condition of foreign countries as to the requisites of production.

It should always be borne in mind that a most serious error will be committed if the economical condition of England is taken to be the type of the economical condition of other countries. England, in many respects, offers a direct antithesis to other countries; thus, she possesses an almost unlimited capital, but has very little fertile land at the present time uncultivated. India and many other countries are very deficient in capital, but possess vast tracts of fertile land still untilled; therefore, contrasting England and India, the increased production of wealth will take place under very different conditions in the two countries. In England capital is readily supplied to assist an increased production of wealth. The labourers' wages will probably rise when the industry of the country is active. There may, however, be one drawback to the benefit which they thus derive. As the area of new soil which England can bring under cultivation is so limited, the price of many articles of food will rise, in consequence of the larger consumption of a more numerous and better paid labouring class. India, in her present condition, has a most abundant supply of land and labour, but her capital is so restricted that it is difficult for the production of wealth to increase unless capital is obtained from other countries. Under such circumstances, it is quite possible to conceive that the labourer in India may suffer, if the demand for some of her products should stimulate her industry. Capital and labour do not readily flow in India from one district to another, and, therefore, we may regard each district in the light of a distinct country. Let us then suppose that in some province in India a much larger quantity of cotton is grown now than formerly, in consequence of England's demand for cotton. The capital of the province will probably not be largely increased, since England will for some time hesitate to invest capital in an industry carried on without her supervision. The capital now supposed to be invested in the culture of cotton will to a great extent have been withdrawn from other employments, say, for instance, from the cultivation of rice. But if less capital is applied to the cultivation of rice, less food

India has abundance of land and labour, but little capital.

will be produced; food will become more scarce and expensive, and a serious injury may be inflicted upon the labourers of this province in consequence of the rise of a new industry.

Thus England wants cheap food, and India capital.

It is evident, from the previous remarks, that in England the great requisite for the increased production of wealth is a large supply of cheap food. This cheap food may be obtained either by importation, by agricultural improvements, or by extending the area of land cultivated in England. Industry cannot be for any length of time impeded in this country by any want of labour and capital, but in India an increase of capital, both fixed and circulating, is most essential to a larger production of wealth. She possesses an abundant supply of fertile land and of cheap labour, but for some time to come the greater portion of the additional capital applied in India must be obtained from England. Ages of anarchy have produced a widespread feeling of insecurity throughout India. Individuals have been afraid to exhibit their wealth, because it would tempt the rapacity of those who had the power to pillage their weaker neighbours. A great part of the wealth saved was hoarded, and it consequently performed none of the functions of capital. The owners of property felt that it was only secure when it could be concealed. If they employed labourers, they could not feel certain that they would be able to retain the results of the labourer's industry. Hence we can reasonably anticipate one most beneficent result from England's rule in India; for her power, in course of time, may make every class in India feel that the rights of property are respected. Nothing will more tend to increase the capital, and hence the wealth of the country; for when security is given to property there is a great inducement to save, and the wealth which is saved, instead of being hoarded, will be usefully applied as capital to assist the further production of wealth. India is at the present time deriving the greatest possible advantage from England's rule. No other country has the power of conferring such benefits upon India. England is annually spending 7,000,000*l.* upon Indian railways; and this important addition to India's capital is supplied for the most valuable of all purposes. As we have before remarked, want of capital is the great impediment to

Useful results to India of her connexion with England.

India's prosperity; but the causes which prevent the increase of capital in India affect fixed capital more than circulating capital. The investment of wealth in the form of fixed capital implies great confidence in the security of property and in the stability of government. Property in the form of fixed capital can be readily destroyed; and undertakings of great public utility, such as railroads, canals, and irrigation works, cannot be carried out unless a great number of individuals combine their capital. Such a combination requires that men should repose in their fellow-men an amount of confidence which implies a somewhat advanced civilisation; and no other country except England is sufficiently wealthy to supply India with such vast sums of capital.

Although there are so many points of diversity between England and India, yet there are other countries whose economical condition differs most essentially from either that of England or India. The main requisite for the increased production of wealth is, in India, an increase of capital, and in England, an increase of land, or, in other words, an increased supply of cheap food. In the West India islands, however, there is an abundance of land and capital, but a great scarcity of labour. The decline in the prosperity of these islands is, in an economical sense, most instructive. Previous to the emancipation of the slaves, the West Indies possessed all the three requisites of production; their soil was fertile, it was owned by English proprietors, who readily supplied all the capital that was required, and labour was, of course, never deficient when slaves could be freely imported, and when there was an abundance of money with which to purchase them. But the abolition of slavery not only freed the slave, but effectually checked the importation of labour. Property in man was declared to be illegal, and therefore no one would resort to the expense of importing labour when he had not the power to retain the services of the labourers he imported. The emancipated negroes of the West Indies are, of course, unwilling to do as much work as when labour was extorted from them. Degraded by their bondage, their wants are few, and easily satisfied; the rich fertility of the tropics supplies them with almost all the food they require, with the exertion of very little

In the West Indies there is abundance of land and capital, but little labour.

labour. Why should they, therefore, constantly toil? they have few tastes to gratify, and few wants to satisfy. No one will labour for labour's sake; the emancipated negroes are well fed almost by the spontaneous bounty of nature, and they are therefore perfectly contented to live a lazy life of repose. The consequence of this is that the production of wealth has almost ceased in many parts of the West Indies; the land is as fertile as it was before. English proprietors would only be too glad to supply capital if they could find the labourers upon whom the capital might be employed; but this labour is not forthcoming, the production of wealth cannot proceed, and estates, which before 1833 were worth 10,000*l.* a year, are now little more than a useless burden to their owners. It is thus quite evident that it is impossible for the West Indies to become more prosperous without a larger supply of labour. How is such a supply of labour to be obtained? In the first place, labourers may be imported; secondly, the population of the islands may increase, and the people may become more desirous to labour, as their wants become gradually enlarged. Let us first consider the importation of labour. Labourers may pass from one country to another entirely of their own accord. Large numbers of Chinese have emigrated to Australia because they could earn higher wages in Australia than in China. Australia never took any steps to encourage their coming; their presence is, in fact, so much objected to, that an extreme measure has been passed, and a poll-tax of 10*l.* has been imposed on every Chinese who lands. If the Chinese felt that equal advantages were to be secured in the West Indies, no doubt great numbers would emigrate to those islands, and thus supply the labour which is so much needed. It is, however, a singular fact, that the English, the Germans, and the Chinese are the only people who freely emigrate at the present day*. Now it is quite impossible for English or Germans to work in a sugar plantation under a tropical sun; if, therefore, the Chinese will not resort in the same way to the West Indies as they have to California and Australia, the West Indies cannot depend upon a supply of

Consequences of this deficiency.

Difficulty of supplying it by importing labour.

* I here use, as in other places, the word English to describe the inhabitants of the United Kingdom generally.

labour from voluntary emigration. By voluntary emigration I intend to signify that the emigrant seeks the country to which he goes, and that the country does not seek the emigrant. For instance, the coolies are not voluntary emigrants. A government votes a certain sum of money to fit out ships which sail to the Malay Archipelago. The natives are canvassed to emigrate, their expenses are paid, and they are promised work when they arrive at their destination. Large numbers of coolies have in this manner been imported to the Mauritius and the West Indies, but the traffic is liable to be abused, and the coolies have occasionally endured on their voyage sufferings which seem to revive some of the horrors of the slave-trade. The coolie-traffic can never be carried on by private enterprise, because, if an individual imported coolies, he would have no power to compel them to work for him in preference to another person. If such a power were permitted, there would cease to be any real distinction between the coolie-traffic and slavery.

Other means of remedying the evil.

The population of the West Indies is, as we before remarked, too lazy to work; and the only hope of making the people more industrious, is to stimulate in them new desires and new wants; they will not, of course, work as long as they are content to obtain little else than the food which the islands supply in abundance. If they can only be made more anxious to have expensive clothing or expensive food, which may perhaps have to be imported from other countries, they will at once have a motive to work, and the West Indies will cease to suffer from the present great scarcity of labour. England, therefore, offers a striking contrast in every respect to the West Indies; nothing can exceed the ceaseless industrial activity of the English people. We all of us labour, because there is some desire which we wish to gratify. Our labourers are pressed on to continuous labour by the necessity of procuring a livelihood. Our climate is rigorous, and the bounty of nature will not supply us with the means of supporting life unless we work with energy and with constancy. The middle classes are urged on to industrial activity by the desire to improve their social and material condition.

In America land and

The economical condition of America, as far as the pro-

BOOK I. CH. VIII.

capital are plentiful, but labour dear;

duction of wealth is concerned, differs in some respects from each of the three countries we have considered. In America, labour is comparatively more scarce than either land or capital. We say comparatively more scarce, because in the West Indies the scarcity of labour is so great that the production of wealth is almost entirely prevented; but this is not the case in America, for in no country has the production of wealth advanced with greater rapidity. If, however, we compare America with England, we know that land is much cheaper in America and labour much dearer; and one of the consequences of this difference is strikingly exemplified by a circumstance which has been noticed by almost every traveller in America, but which has been seldom explained. America is ill cultivated compared with England, and her agriculture appears to be most slovenly; there must be some cause for this difference; it cannot be explained by that never-failing resource of shallow thinkers, a difference of race. An agriculturist, who may in England have cultivated his farm like a garden, will, if he emigrates to America, find it greatly to his interest to adopt a very different system of tillage. The reason of this may be best shown by an example. An English farmer, let us suppose, cultivates a hundred acres of land, for which he pays 200*l.* a year rent. 200*l.* a year expended in wages on his farm will return the farmer a fair profit for his capital and his exertion; but he may think that it will answer his purpose to farm more highly, to employ twice as much labour as before. He will be remunerated for the additional 200*l.* which he expends on wages, if the increased produce from the farm sufficiently exceeds the cost of this extra labour to leave the farmer a fair profit on the additional capital he has expended. If this is the case, the additional labour will be as profitable to the farmer as that which he first employed, but it will not be so productive. When only 200*l.* was expended on wages, the produce of this labour must have been sufficient not only to return a fair profit upon the amount expended in wages, but must also have been sufficient to cover the rent. If the additional labour employed diminishes in productiveness, it may be said why not apply it to other land? it cannot, however, be applied to equally good land without having to pay a rent for the use of the land; hence,

effects of this upon agriculture.

up to a certain point, it is more remunerative to apply additional labour to the same land, although the labour diminishes in productiveness, rather than to apply the labour to other land for which rent will have to be paid. But if good land were extremely plentiful, or, in other words, rents were extremely low as in America, it would manifestly be far more profitable to cultivate fresh land rather than apply additional labour upon land already under tillage in order to cultivate it more highly. Hence, in America much less labour is employed in the cultivation of a certain area of land than would be employed upon the same area in England, and farming is consequently more slovenly in the former than in the latter country, because in the one country land is cheaper than in the other, and labour dearer.

Comparison of the different results obtained.

In this and the preceding chapter, we have investigated the laws which regulate the increase of labour, and capital, and cultivable land. These laws combined, furnish the conditions upon which depend an increase in the production of wealth. We have attempted to illustrate the manner in which these laws may be combined, by considering four countries, England, India, the West Indies, and America; and in each of these countries the requisites for an increased production of wealth assume, relatively, different degrees of importance. In England, an abundant supply of cheap food is required; in India, an increase of capital is most essential; and in the West Indies, an increase of labour. In America the production of wealth meets with no serious impediment, for it advances with the most extraordinary rapidity. Yet, in America, there is a comparative scarcity of labour, and an ample supply of productive land. America and England have conferred upon each other the most important mutual benefits. Cheap food is essential to England's progress, and our greatest supplies are obtained from America. Cheap labour is the most valuable gift to America, and our surplus population, which would become burdensome to us if there had been no emigration, is providing America with the labour she so much needs.

We have now considered all the more important propositions which concern the production of wealth. We shall frequently recur to this portion of our subject, and

thus the reader will obtain a firmer grasp of many of the principles we have discussed. We now pass on to the next branch of our subject, which is the distribution of wealth.

BOOK II.

DISTRIBUTION.

CHAPTER I.

PRELIMINARY REMARKS ON PROPERTY.

HAVING considered the production of wealth in the last book, we now pass, by a natural sequence, to expound the principles which regulate the distribution of this wealth. In some of the remarks on the production of wealth, it was necessary to anticipate the fact that the wealth produced is distributed amongst different classes. The wages of the labourers, the profits of the capitalist, and the rent of the landlord, have been spoken of. Allusion has also been made to some of the sources which supply the wealth thus distributed; for instance, the nature of capital could not be explained, without showing that the capital of the country is the fund from which the wages of the labourers are supplied, and, therefore, if the capital increases, the wages paid must increase. Although in this manner, the subject of the distribution of wealth has been slightly encroached upon, yet nothing has hitherto been said in reference to the principles which determine the relative amounts of the shares into which wealth is distributed. It, therefore, remains to explain why wages are high or low, why profits rise or fall, and why rents in one country vary so greatly in amount at different times and in different places. This book, therefore, will probably be more interesting than the last, because in it questions will be discussed of the greatest practical importance; we shall have occasion to show how wages and profits are affected by such combinations as strikes, and how industry is influenced by the different tenures of land which exist in different countries; the subjects discussed will, in fact, have equal interest for the philanthropist and the trader; for remedies will be suggested for alleviating the poverty

BOOK II. CH. I.

of the poor; and the causes upon which depend the prosperity of trade will be explained.

The distribution of wealth implies property,

Distribution of wealth implies the idea of property. If there were no property, or, in other words, if no individual could possess anything which he could claim as his own, there could of course be no distribution of wealth. Every one would then obtain, either by chance or by force, the food and other necessaries which minister to the wants of life. It is impossible for property to exist until society is organised, for the fundamental idea involved in property is this; that those who own the property possess in it a right, which will be enforced by law; but the existence of law implies that a people composing a state or a nation will exercise a combined power to make individuals regulate their conduct according to certain rules termed laws. Such combined action constitutes the power of government, and the government ceases to exist if it is not able to exercise its power and enforce obedience to its laws. A great portion of the laws of every nation concern property; such laws vary greatly in different countries and at different times, and property has rights in one age of a nation's existence which it has not in another. Before the passing of the Act of Emancipation, a negro, if purchased by an English colonist, became as much his property as an article of domestic furniture. In feudal times, a baron could enforce various personal services from those who occupied his land; they were bound to furnish him, if he waged war, with a certain number of men, horses, and coats of armour. There is, again, the greatest difference in the control which can be exercised over the disposal of property; for, in England, land can be entailed, and devised by will, to an unborn child. In France, the owner of land has no power to prevent his children sharing it equally upon his death. Then again, property is held in different ways; a great number of individuals forming a company or society may be the joint owners of property. Property may be held on lease. In Europe, the land is chiefly the property of private individuals; whereas, in India, the bulk of the land is owned by the government. It would be impossible to describe the origin of all the different kinds of property, and the rights connected therewith, without writing the history of each country; but al-

and is affected by the different laws about property.

though it does not pertain to political economy to discuss the origin of the laws of inheritance, or of landed tenure, yet the production and distribution of wealth are most materially influenced by particular laws of inheritance, and by different systems of landed tenure; and, therefore, all such influences must be most carefully considered in a treatise on political economy.

The distribution of wealth is affected by custom and competition.

It has been remarked that the principles which regulate the production of wealth have the character of physical laws. The distribution of wealth is much more liable to be controlled by the human will. As an instance, nature supplies the materials out of which all wealth must be created; and the kind and amount of the labour which must be bestowed upon the raw material when it is converted into some manufactured commodity depends upon the properties of the material. Again, the world has been so constituted, that every country possesses land of various degrees of fertility; from this circumstance we deduced that important law which was explained in the last book, and which affirms that the cost of agricultural produce has a tendency to increase as the demand for it advances. The production of wealth is, therefore, influenced by various physical conditions which are independent of human agency; but the distribution of wealth is, of course, entirely subject to human control. Men may regulate the distribution of wealth by any rules or principles of their own creation; and it is the purpose of political economy to explain the consequences which must follow from the rules which may be adopted, or from the principles which may be brought into action. It is, for instance, quite optional with men whether they allow custom or competition to regulate the distribution of wealth, but it is not optional with them to control the effects which follow when a particular custom has been adopted, or when competition has regulated a transaction. In England competition is far more active than in almost any other country, and, therefore, many of the practical conclusions of political economy must be somewhat modified before they are applied to other countries, where, perhaps, custom is far more powerful than competition. In England competition regulates the rent of land; but in many parts of Italy, according to an invariable custom, metayer rents are

paid, or, in other words, one-half the produce is given for the use of the land. In England, again, the produce of the land is shared amongst three classes—the landlords, farmers, and labourers; but throughout the greater part of the world the produce is shared only amongst two classes, the landlords and farmers being combined in one, like the ancient freeholders of England; or the farmers and labourers are merged into one class, like the miserable cottiers of Ireland. On the continent of Europe peasant proprietors are very numerous, and in these cases the individual owns the land, cultivates it himself, and likewise provides the capital. It will be necessary to trace the consequences which arise from these various arrangements.

Inequalities of wealth necessarily follow the institution of private property.

The greatest inequalities of wealth are sure to follow the institution of private property; and the wealthier a country may be, the more striking is the contrast between the wealth and the poverty which have throughout the history of the world accompanied each other. Various schemes have been propounded with the view of causing the wealth which is produced to be distributed more equitably; but if the State confiscated the property of every individual in England to-morrow, accumulated the whole wealth of the country in one great fund, and divided all the land equally amongst the inhabitants, there would gradually arise the same inequalities of wealth which exist at the present time. The industrious would soon obtain those portions of wealth which were allotted in this national distribution to those who were indolent, and deficient in industrial capacity. Men are differently endowed by nature, and those who possess strength and ability would soon become wealthy, and those who were less strong and less able would quickly return to comparative poverty. If, therefore, private property is permitted, and if men can indisputably claim as their own the wealth which is distributed to them as the reward of their labour, there must result great inequalities of wealth. And these inequalities will be increased if the rights of private property are extended, for in England not only is the property of an individual secured to him while he is living, but the law interprets with the greatest care his wishes with regard to the disposal of his property after death. An influence is no doubt thus exerted to accumulate large amounts of

wealth in a few hands. Many of the great estates of the English aristocracy would long since have been sold and distributed amongst different owners had there been no power of entail.

Schemes to avoid this inequality: communism.

Benevolent men, deeply impressed with the wide-spread poverty which prevails even in the most wealthy countries, have rightly perceived that such great inequalities of wealth must always exist if the privileges of private property are freely permitted; and, consequently, philanthropists have been frequently prompted to advocate schemes of social life in which private property shall not exist, but all the wealth of the community shall be enjoyed in common. This is the fundamental idea which has suggested communism. No philanthropists have ever been more unpopular than the communists; but the antipathy is no doubt due to the popular error that a communist is anxious to limit the rights of private property by means of a wholesale confiscation. Such a charge, however, is extremely unjust. When communism has been attempted, the property upon which the experiment has been made has been fairly and legitimately obtained. The communists may have been mistaken theorists, but let us not deal harshly with them. They have often made noble sacrifices in order to battle against great defects in the state of society; they have sometimes effected great practical good, and the experiments they made, even when they have been unsuccessful, are always worthy of attentive reflection.

Schemes proposed by Owen and Fourier.

Communism, as first propounded by Owen and Fourier, proposed that a society living together should share all the wealth that was produced. A number of families would, according to this scheme, live together on the same terms as the individual members of a single family. When a family settles in the backwoods of Canada, each member of the family labours on that work to which he or she may be best suited. In such a case the labour of each renders some assistance to all the rest, and then the results of the labour of the whole family are shared in common. Such a society, however, can only be kept together by the strong ties of family affection; and it is manifestly impracticable, in the present state of society, to maintain a similar union between several distinct fami-

lies. Although the difficulties which oppose communism may be patent to all, yet it is well to consider some of the evils which communism seeks to remedy. In a state of society like our own, established on the basis of private property, everything tends to heighten the disadvantages which result from comparative defects in natural endowments. The strong and able are permitted through life to appropriate to themselves all the fruits of their own labour, and the weak and less able are constantly, as it were, borne down in the struggle. But in order to remedy these evils by any form of communism, an amount of virtue is required which is rarely possessed at the present time. The utmost self-denial and the widest charity will also be needed; in fact, men must become a higher order of beings before they will work through life, not for the benefit of themselves, but for the purpose of contributing their labour to the advantage of the community to which they belong. Some of the practical difficulties, however, here suggested were partly obviated in two systems of modified communism which were propounded with great ability by St. Simon and Fourier, who both proposed that the enjoyment of private property should not be altogether forbidden.

Difficulties in these schemes.

St. Simon's scheme was specially intended to provide some machinery for the arrangement of the labour in a communistic society, for without some such arrangement all would be in confusion; there would be no security that individuals would be employed on the labour for which they were best adapted, and every one would be anxious to avoid all disagreeable work. St. Simon, therefore, proposed that chiefs of the community should be appointed, who should equitably distribute the labour which had to be performed, and should also determine who were to be ordinary labourers, and who were to be skilled artisans. These chiefs not only distributed the labour, but also distributed the results of the labour; they allotted to each individual the share of the wealth to which they considered he was fairly entitled; and the share which an individual thus obtained he was permitted to enjoy as his own private property. But nothing can be more impracticable than this scheme, unless there should happen to be such a marked distinction between the individual members of the

St. Simon's plan for avoiding these difficulties.

community and its chiefs that the right of the chiefs to dictate and to govern could not be disputed. The Jesuit missionaries established such a community with great success in Paraguay; but between these missionaries and the community they controlled, there was always the difference which distinguishes civilisation from barbarism. But no body of men would ever consent to delegate to any of their fellow-countrymen the powers which would entirely subjugate their own individuality; and St. Simonism, even if it alleviated poverty, would introduce greater evils; for a man would be in a pitiable state of subjection if he was not himself free to choose the labour upon which he should employ his energy.

Fourier's scheme.

The scheme proposed by Fourier was much more skilfully designed; he intended that each separate community should consist of about 2,000 persons, who should be settled on a square league of ground; he not only permitted private property, but allowed property to be obtained by inheritance. Every member of this community would receive a certain remuneration, even if he were not able to work. Fourier also recognised the claim of capital to be rewarded; the community were combined like a trading company to produce wealth, and after a certain competence, considered necessary to support life, had been allotted to every individual, the remaining produce was divided as a reward for labour, capital, and talent. The administration of this division of the produce was arranged by the heads of the community according to the following plan:—The labourers were divided into three distinct grades, which marked different standards of skill and talent, and the remuneration received by each of these grades varied according to a fixed proportion. The particular grade to which a workman was admitted, was determined by the vote of his fellow-workmen; there was community of labour, but not community of living; it was only proposed, for the sake of economy, that each family should have its separate apartments in the same block of buildings. The first objection that will probably be made to this scheme is the following: that very soon the industry of a community would be destroyed by its members regarding exertion as unnecessary, if a livelihood was always ensured to those who did not work. Exactly the same

Its chief difficulties.

objection may be brought against our poor-law system, and yet England has obtained a great commercial position in spite of this impediment to her industrial progress. Internal dissensions would be the greatest difficulty against which the scheme of Fourier would have to contend; men would be dissatisfied with the grade in which they were placed, and the chiefs of a community would occupy a position most difficult to maintain, for a man is most jealous of any interference with the details of his daily life. Again, if such a community were prosperous, and if wealth were more equally distributed than in the present state of society, all the members of the community would be sufficiently well off to marry at an early age; the result would be, a rapid increase of population; the land possessed by the community would soon become not sufficient to supply the increased population with food; food would become much more expensive, and there would soon arise poverty and distress. We believe that all such schemes of communism must entirely fail if, in a country like our own, they attempt to displace a state of society based on private property. It is, however, advisable to allude to the principal communistic schemes, because, at different times, they have excited great interest, and the speculations of those who propounded those schemes are deserving of much careful attention. The difficulties which we believe will oppose the success of communism have not been pointed out in a spirit of antagonism. A communistic experiment may be made without inflicting the slightest loss or injury upon any but those who voluntarily take part in it. It is quite possible that such an experiment would dispel many of those objections which beforehand appear most formidable. Such an experiment ought then to be welcomed and not opposed, for communism has always been mainly prompted by a desire to alleviate the poverty which presses so heavily upon a large portion of mankind.

CHAPTER II.

THE CLASSES AMONGST WHOM WEALTH IS DISTRIBUTED.

The classes amongst whom wealth is distributed. Their shares are termed rent, wages, and profits.

WE have described the requisites of production to be three: land, labour, and capital. Since, therefore, land, labour, and capital are essential to the production of wealth, it is natural to suppose that the wealth which is produced ought to be possessed by those who own the land, labour, and capital which have respectively contributed to its production. The share of wealth which is thus allotted to the possessor of the land is termed rent; the portion allotted to the labourer is termed wages, and the remuneration of the capitalist is termed profit. The remuneration therefore received in the form of rent, wages, and profits represents the three distinct claims which individuals have upon any wealth which is produced. Having pointed out that wealth is distributed between rent, wages, and profits, we must proceed to enunciate the laws which regulate the comparative amounts of rent, wages, and profits. In different countries these relative amounts vary greatly; for instance, rents are much higher in England than in Australia, and wages are much lower in the one country than in the other. The rate of profit is also much greater in Australia than in England. In Australia, ten per cent. may be obtained on the security of a freehold mortgage, whereas in England a similar investment will not yield more than 5 per cent. Without, therefore, enquiring whether Australia is more productive of wealth than England, it is very important to establish principles which will explain why wealth is so very differently distributed in the two countries. Other countries present equally striking points of difference.

It has been shown that wealth is distributed in three

These shares are not always payable to different individuals.

shares, namely, rent, wages, and profits: because land, labour, and capital are essential to the production of wealth; and rent, wages, and profits represent the service which has been rendered by each of these agents of production. It must not be supposed that rent, wages, and profits are always received by distinct individuals. In England, as a general rule, there are these three distinct classes of recipients, who are respectively named landlords, labourers, and employers. The landlord seldom supplies either capital or labour; the capital is advanced by the employer; and the labourer has very rarely any capital invested in the industry upon which he is employed. But the economical condition of England differs, in this respect, more widely from other countries than is usually supposed; in fact, it is rather the exception than the rule, that wealth should be distributed in the form of rent, wages, and profits, amongst distinct and separate classes of individuals.

The peasant proprietor receives all the three shares of the produce of his land.

In the south of France, in Italy, in Flanders, and in other parts of the continent, peasant proprietors occupy a great portion of the land. It is intended to signify, by a peasant proprietor, a man who cultivates a small quantity of land which is his own property; he himself supplying all the labour and capital which are required. In such a case, the produce is not distributed into rent, wages, and profits, for one individual is entitled to all the produce which is raised, since he owns the land, and has also contributed the labour and capital. Although the whole produce is as it were heaped together, without being divided into three portions corresponding to rent, wages, and profits, yet the remuneration obtained by the peasant proprietor is composed of three distinct parts. These are combined, but they may be separately estimated in the following manner. If the land cultivated by the peasant proprietor was not his own property, he would be obliged to pay a certain rent for its use. A portion of the produce, therefore, equal in value to the amount which will be thus paid represents the rent. Again, if the capital employed by the peasant proprietor was borrowed from some one else, a payment must be made for the loan, and therefore a portion of the produce equal in value to such a payment indicates the profit, which is a fair remuneration for the capital which the peasant proprietor employs.

Again, the portion of the produce which represents wages may be ascertained by estimating the wages which would have to be paid if the peasant proprietor, instead of working himself, cultivated his land with hired labour. Such an estimate as that we have just indicated is often of great practical importance. The comparative advantages and disadvantages of farming by peasant proprietors have long been keenly disputed. In order to decide this important question, we must pursue the following method. From the whole produce which is raised upon the land cultivated by a peasant proprietor, there must in the first place be deducted an amount which represents the rent this land would pay; there must also be deducted a certain amount for labour and capital, and if a surplus remains, it will represent the advantage of farming by peasant proprietors. We shall, in another chapter, have occasion to enlarge on this subject.

Cases of India and of slave-owning countries.

A great portion of the land of India is occupied, not by peasant proprietors, but by peasant cultivators. The land is generally owned by the government. The peasant cultivators often rent from the government a small portion of land, which they can cultivate with their own labour and capital. Sometimes the government grants the land at a fixed rental to individuals who occupy the position of middle-men, and who re-let the land to peasant cultivators. Land which is cultivated by slaves is in an anomalous position, for in this case it would appear that the whole produce is shared between rent and capital, since the slaves must be regarded as a portion of the slave-owner's capital, just in the same manner as the horses which plough our own soil are a portion of an English farmer's capital. The slaves do not receive any wages; they cannot accumulate wealth; they have none of the rights of property. The slaves are fed, it is true; but so are the horses fed. The economical condition of a slave country differs so much from other countries that we must discuss some of the economical aspects of slavery in a separate chapter.

The reader may remark that in the general observations made in this chapter on the distribution of wealth we have only considered agricultural produce. This has been done because similar although somewhat more complicated laws regulate the distribution of the wealth which is

Manufacturing industry.

created by manufacturing industry. All the materials upon which manufacturing industry is employed are products obtained from the land. Thus, wool is an article of agricultural produce. When wool is woven into cloth, it is rendered much more valuable. How, then, is this wealth distributed which is added to the wool by manufacturing it into cloth? Wool, and such other raw materials of manufacturing industry, are purchased by the manufacturer, and become a portion of his capital, and the wealth produced by manufacturing industry is finally distributed between capital and labour; in fact, there are two distributions. The raw produce, or, more correctly, the money, with which the manufacturer purchases this raw produce, is distributed in a similar manner to other agricultural produce; after this raw material has been manufactured, another distribution takes place between the labour and the capital which have been employed in the production of the manufactured commodities.

Remuneration due to labour when indirectly productive.

When it is stated that wealth is distributed in the form of rent, wages, and profits, it must not be supposed that the labour which has directly contributed to the production of the wealth is alone remunerated. Before agricultural produce is brought to the market, the industry of many other labourers has been called in besides those who are actually working on the farm, all of whom will receive a certain share of the produce in the form of wages. A farmer may employ bargemen to take his wheat by canal to a particular market, but these bargemen must be paid wages, just in the same way as labourers who are employed on the farm. Again, a farmer may join with others to pay labourers for keeping the roads in a proper state of repair; from him, also, are levied rates which maintain a police establishment, considered necessary to make property secure. We shall hereafter enquire on whom these burdens fall.

Relative importance of competition and custom.

The amount which in any particular case the landlord, capitalist, or labourer receives is regulated either by competition or by custom. In almost every case competition and custom exercise a joint influence; but competition not unfrequently acts so much more powerfully than custom, that it may be virtually regarded as the sole determining cause. It is impossible to enumerate all

the important customs which influence various trades, but it will be necessary to trace the effects of customs more wide and constant in their operation, such, for instance, as those which regulate the rent of land. The metayer rents which exist in many continental countries may be quoted as an example of one of these customs; for where this tenure prevails the rents paid for the use of the land are always equivalent to a fixed portion of the produce. This portion is generally one-half.

Beneficial effects of competition upon the labouring classes.

It may however be remarked, that as a nation advances in industrial enterprise all her commercial transactions are more completely regulated by competition. There cannot be activity of trade without a keen desire for gain; but such a feeling indicates the spirit of competition, for in business men compete with each other with the view of securing the greatest possible gain. It is, however, important to present competition in a somewhat different aspect; for the manner in which it has been here described may very possibly encourage the wide-spread error that with it there is associated something almost criminal. Many who profess to be social philosophers attach to competition the stigma of selfish greed. The poverty of the poor is often attributed to it; but we shall have reason to show that it is no enemy to the working-classes. Without it, their poverty would be rendered doubly severe; for it is an active spirit of competition which maintains the capital from which the wages of the labourers are paid. Competition befriends the working classes in other respects; it cheapens commodities, and ensures that the maximum of wages shall always be paid. Competition is not confined to one class; it may be as rife amongst buyers as amongst sellers, or amongst the employers as amongst the employed. Individuals who have goods to sell are anxious to realise as large profits as possible; but when there is competition, a trader cannot be paid more than what is termed a fair price for his goods, because if he attempts to obtain more than the ordinary price he will be undersold by other traders. When buyers compete with each other they are anxious to secure the greatest gains, or, in other words, to buy upon the best possible terms; and thus, when buyers are each intent on purchasing on the most favourable terms, a commodity is

sure to realise what it is worth. It therefore follows that if on the one hand competition prevents a trader obtaining exceptionally high profits; on the other hand, it ensures to him a fair price for his goods. Some, perhaps, may think it unfortunate that employers, stimulated by a desire to realise the largest gains, should seek to engage their labourers on the lowest possible terms. But such conduct on the part of the employers inflicts no injury upon the labourers; for whenever there is activity of competition, an individual manufacturer or trader is as powerless to get labourers to work for him at less than the ordinary wages as he would be to buy cotton at a cheaper rate than his fellow manufacturers. The price of cotton is maintained because there are those who are anxious to purchase it; the rate of wages is also maintained by those who are anxious to purchase labour. Competition, consequently, exerts no tendency to reduce profits or wages; the tendency is rather one of equalisation.

Competition varies in intensity in different countries.

Competition acts with far greater force in some countries than in others. In England the commercial spirit is so active that we are liable to forget that in some countries various transactions, such as the renting of land, the hiring of labour, and the sale of commodities are regulated by custom to a far greater extent than by competition.

It has been often remarked that all men are more or less the slaves of habit. Every nation has some customs which become, as it were, engrafted on its existence; customs which in their origin were perhaps purely social have in many cases, after a certain lapse of time, produced effects of great pecuniary consequence. In this way the results which would ensue if competition freely operated are often interfered with; for men not unfrequently pay the most implicit obedience to a custom, even when they are not bound to do so by law. It has already been stated that, in parts of the continent, the landlord uniformly receives as a rent one-half the produce of the land; he never thinks of asking more or less, although his land might very likely yield him a larger income if it were let to the tenant who consented to pay the highest rent for it. In many professions the

Effects of this in the case of rent.

charges made are absolutely fixed by custom. Lawyers and physicians do not adjust their charges like ordinary traders; the charges are regulated by the custom of the profession. Equally rigid customs affect many classes of labourers; artisans in particular trades must serve a fixed term of apprenticeship, and the wages received are often determined by customs which, though perhaps not so rigidly observed as some others, yet are frequently not easily modified.

Having, therefore, shown that the distribution of wealth may be primarily classified into rent, wages, and profits, we shall, in the first place, explain how the amount which is received in the form of rent, wages, and profits is determined when regulated by competition; and we shall then, secondly, proceed to explain the different results which follow, when the distribution of wealth is affected by such customs as those which have just been indicated.

CHAPTER III.

RENTS AS DETERMINED BY COMPETITION.

Historical origin of rent.

A COMPREHENSIVE history would have to be written, if it were attempted fully to describe the origin of property in land. Every country has probably been subjugated, and grants of the vanquished territory were the ordinary rewards which the conquering chief bestowed upon his more distinguished followers. Some families in this country still retain the lands which their ancestors received from William the Conqueror. Lands obtained by force had to be defended by force; and before law had asserted her supremacy and property was made secure, no baron was able to retain his possessions unless those who lived on his estates were prepared to defend them. There thus arose almost universally some personal relations between landlord and tenant, and the personal services which such a feudal tenure required formed a considerable part of the rent which was paid for the land. As property became secure, and landlords felt that the power of the State would protect them in all the rights of property, every vestige of these feudal tenures was abolished, and the relation between landlord and tenant has thus become purely commercial. A landlord offers his land to anyone who is willing to take it; he is anxious to receive the highest rent he can obtain. What are the principles which regulate the rent which may thus be paid?

How is the rent of a given tract of land determined?

We all know that the more fertile land is, the higher will be its rent. We are also aware that the rent which land yields not only depends upon fertility of soil, but also upon convenience of situation. Land which is remote from towns does not pay so high a rent as land of equal

fertility situated at a short distance from some large centre of population. The relative rents, therefore, which are paid for different farms are determined by fertility of soil and by convenience of situation. It will be generally admitted that the value of land depends upon the two causes we have just mentioned, but the important question to answer is this: Can we obtain an index to the amount of rent which land can afford to pay at any particular time? The object we have in view in the present chapter is to supply an answer to this question.

Short statement of Ricardo's theory of rent.

In every country there is the greatest variety in the productiveness of the land*; high rents are paid for the use of some land, whereas other land not far distant may be too poor to be cultivated. Let it be supposed that there are two farms which are rented at different rates; the one farm is rented more highly than the other because its soil is more fertile or its situation more convenient, and the difference in the rents paid by these two farms would indicate the pecuniary value of the superior productiveness of the one farm over the other. There may be another tract of land so poor that, if cultivated at all, it could only bear a nominal rent; for land will only pay a nominal rent when the produce raised from it is no more than sufficient to return the average rate of profit upon the capital spent in its cultivation. If we compare such barren land with land which pays a considerable rent, then, as we have just remarked, the difference in the pecuniary value of the superior productiveness of this better land may be measured by the difference in the rents paid by the good and barren land respectively. But this difference is denoted by the whole rent paid by the good land, since the rent of the poor land is assumed to be merely nominal; or, expressing this in other words, it may be stated, that the rent of land represents the pecuniary value of the advantages which such land possesses over the worst land in cultivation, the rent which this worse land yields being merely nominal in amount.

* The value which land receives from these two causes, viz. fertility of the soil and convenience of situation will throughout be designated by the word "productive." Vide page 46.

The proposition which has just been enunciated, and the simple reasoning by which it has been established, may be regarded as a statement and a proof of Ricardo's celebrated theory of rent. The theory, as here expounded, may perhaps appear so simple, nay, perhaps, so obvious, that our readers will not readily appreciate its importance, nor will they perhaps believe that the theory itself has been warmly controverted by eminent men. It will be advisable to consider the ordinary objections urged against the theory, for we shall be able thus still farther to elucidate it, and these objections will afford an appropriate example of the popular prejudice which so frequently attempts to discredit the conclusions of science.

Dr. Whewell's objections to this theory;

The most recent revival of attacks on Ricardo's theory may be found in some prefatory remarks by the late Dr. Whewell, prefixed to a 'Collection of Some Fragmentary Tracts on Political Economy, by Mr. Jones*.' Dr. Whewell objects to Ricardo's theory because the rent of land is, over the greater portion of the world, controlled by custom; and even in England, where land is let by competition, Dr. Whewell maintains that this theory is never employed to settle the rents that are paid; he therefore made two specific allegations: his first position is, that the theory is of comparatively little value because of its limited application, and, secondly, that it can be of no practical importance even in the exceptional cases where it may be regarded as capable of a practical application. In this chapter we shall confine our attention to the last of these allegations; the modifications which the theory requires, when rents are fixed by custom and not by competition, will be considered in another chapter.

that it is rarely applicable, and that when applicable it is unimportant.

No one can reasonably suppose that Ricardo, or any of those who adopt this theory, imagine that a land-steward avails himself of this theory when he is fixing the rent of any particular land. No farmer when about to rent a farm asks himself, What is the value of this farm above the worst land in cultivation? But these considerations do not afford any valid objections against the theory; it might as well be said that the laws of digestion and respiration are not worth explaining, because no one

The last objection answered.

* Mr. Jones was Professor of Political Economy at the late East India Company's College at Haileybury.

thinks of these laws when he eats or breathes. Although men of business do not use a theory of rent, and may have never heard the name of such a theory, yet unconsciously they follow the theory; and the theory will explain the practical consequences connected with the renting of land, as completely as if all who were engaged in such business transactions were political economists of the true Ricardian type. The point, therefore, to be determined is not whether the theory is used, but whether the theory is universally true when rents are determined by competition. Let us again expound the theory; and we think it will be admitted that each of the positions which it assumes is incontrovertible. It cannot be denied that the land of each country varies so greatly in productiveness, that there always exists some land which is either so barren or so disadvantageously situated that it is just on the margin of cultivation, and can only pay a nominal rent. Land which is more productive will pay a rent, and such rent must represent the difference in the value between this better land and that land which is so barren that it can only pay a nominal rent. But this value is represented by the difference in the nett produce obtained from the two lands in question, and hence the rent of any particular land may be estimated as the difference between the amount which it produces and the amount of produce raised from the worst land in cultivation. This is the ordinary enunciation of Ricardo's theory; the terms however in which this enunciation is expressed require some explanation. In the first place, it should be remarked that nett produce, not gross produce, is meant.

Restatement of the theory.

The necessity of making this distinction may be illustrated by an example. Let us, for instance, suppose that there are two farmers, A and B, and that one of these, A, occupies a much more productive farm than the other, B. Now the gross produce of a farm is the whole produce which is raised from it, without deducting the expenses of cultivation. But the surplus produce which remains to the farmer cannot be ascertained until from this gross produce is deducted all the expenses connected with the farm. A certain sum must also be deducted as interest for the capital invested in the farm, and the farmer should also estimate his own labour of superintendence at a cer-

Illustration of the theory by an example.

tain pecuniary amount. All these deductions may be regarded as forming in the aggregate the cost of cultivation; and when such deductions have been made, the produce which remains is the nett produce, or, in other words, the nett produce is obtained by deducting the cost of raising the produce from the pecuniary value of this produce. If, therefore, it were ascertained that the nett produce of A's farm exceeded by 1,000*l.* the nett produce of B's farm, it is manifest that A would be able to pay 1,000*l.* more rent than B. If B's farm was so poor that he obtained it at a merely nominal rent, the amount of its nett produce would be also nominal. But it may be said, If such were the case, B would not continue to cultivate the farm; this, however, need not be so, because it has been supposed that the nett produce is that which remains, after every expense connected with the farm has been paid, and after an adequate remuneration has been given to the farmer for his own labour and for the use of his capital; therefore, it would answer B's purpose to cultivate his farm, although the nett produce was merely nominal, if he could obtain the farm at a nominal rent. But, since we have supposed that the nett produce of A's farm exceeds by 1,000*l.* the nett produce of B's farm, A would be able to pay this 1,000*l.* as rent, and, therefore, the rent of any land is the difference between its nett produce and the nett produce of land which pays a merely nominal rent. Moreover, we shall proceed to show that this amount of rent, namely 1,000*l.*, which from theoretical considerations we have proved that A is able to pay, will be approximately the rent which is actually paid if land is let by open competition. Experience proves that men are satisfied to continue in business if they can realise the current rate of profit upon their capital, and also obtain a certain remuneration for their own risk and trouble. Let it be supposed that A's landlord demands from him a rent of 1,000*l.*—this sum representing in value the nett produce of the farm—the profits he obtained upon his farm would still be sufficient to induce him to continue his business. If, however, he were called upon to pay a greater rent than this, say 1,500*l.*, a year, his profits would be so diminished that he would not be able to obtain the same return for his capital as if it were invested in

The theoretical result coincides with the practical result, assuming freedom of competition.

some other business. He would virtually lose by farming, because he could make more of his money if otherwise invested; and no class of traders will continue a business when it becomes comparatively unremunerative. The landlord would therefore be powerless to obtain from A a rent much exceeding 1,000*l.* But there is a further question: What would prevent the farmer paying a less rent than 1,000*l.*, say a rent of 700*l.*? This would certainly be prevented by the competition of others anxious to engage in farming operations. Those who had a practical knowledge of farming would be able to calculate with considerable exactness what would be the nett produce on A's farm, and they would thus know that if A was only paying a rent of 700*l.* a year, that he was paying 300*l.* a year less than might be paid, with a realisation of a fair profit to the farmer. Others would come forward and offer a higher rent for the farm, and A would consequently be obliged to leave the farm or else pay a higher rent.

It is, therefore, no exaggeration to say that when land is freely competed for, rents are approximately adjusted, according to Ricardo's theory. We say "approximately," because there is a certain margin of variation for which allowance ought always to be made. Thus, two land-agents may differently value the nett produce of a farm. A landlord, rather than lose an old tenant, may often continue to receive less rent from him than a new tenant would be willing to pay; but in such a case competition is to a certain extent interfered with by the feelings which arise from affection and old association. Ricardo's theory is strictly true upon the supposition that there is free competition, and in practical life the results which may be deduced from the theory really occur in proportion to the extent to which competition acts without interference from other disturbing agencies. It is no uncommon thing to say that the sun causes the earth to revolve in an ellipse, and yet the earth never does so move, it oscillates from one side to the other of this ellipse in consequence of the disturbing force of each planet's attraction. For many of the practical purposes of astronomy, it may be stated with sufficient exactness that the orbit of the earth is a true ellipse; and just in a similar way, in a country such as England, competition is so much more powerful than any

Illustration from astronomy.

of the other motives which influence the adjustment of rents, that it will be sufficiently exact to affirm that the rents which are actually paid are those which would be deduced from Ricardo's theory. In some cases, however, other motives which may be regarded as antagonistic to free competition, assume so much importance that they must be specially considered.

The 'Margin of cultivation.'

It will much assist clearness of conception, if we employ some technical language to describe the terms of Ricardo's theory. This theory implies that in any given condition of a country there is some land which will just pay for cultivation if it is let at a nominal rent. Thus, as it were, *a margin of cultivation* is marked, below which the cultivation of land cannot descend, unless some circumstances should occur which should either induce men to be satisfied with smaller profits, or should increase the productiveness of land; it must be borne in mind that there are two ways in which the productiveness of land may be increased; in the first place, a larger demand for agricultural produce may raise its value, and in the second place, agricultural improvements may cause a greater amount of produce to be obtained from the soil. In the example which we have employed, it has been supposed that this margin of cultivation has been denoted by the farm occupied by B; for the produce which is raised from this farm only suffices to pay the expenses of cultivation, and to return B a fair remuneration for his capital and for his personal exertions. Under these conditions this land will pay no rent. Various circumstances, however, may occur which will enable rent to be obtained from this land, or, in other words, would cause the margin of cultivation to descend. Let us, therefore, enquire into some of these circumstances.

The margin of cultivation depends upon the rate of profit in each country.

It has already been remarked that the current rate of profit which prevails in different countries varies greatly. In Australia ten per cent. can readily be obtained on the security of a freehold mortgage, and a merchant in that country would not think of incurring the risk and trouble of investing his capital in trade, unless he could make a much larger profit than ten per cent., because he could secure this profit without risk or trouble upon a freehold mortgage; therefore, traders in that country would not

continue their business unless their profits were very much more than ten per cent. But in England five per cent. can scarcely be obtained on a freehold mortgage, and a trader would be perfectly satisfied with his business if a profit of ten per cent. were realised on the capital invested in it. We shall hereafter enquire into the causes which produce these great variations in the rate of profit in different countries. In Holland a still lower rate of profit prevails than in England. Let it be assumed that in this respect England became like Holland, and that the English would be satisfied with a rate of profit so reduced that they would lend money to their government, as the Dutch have done, at the small interest of two per cent. If such a change occurred, men of business in England would be satisfied with a smaller profit than they are now, and would be ready to invest their capital in businesses which would produce them a lower rate of profit. But such a change would at once affect the margin of cultivation. Before the change occurred, no worse land is brought under tillage than that which is cultivated by B, because, although he pays only a nominal rent for his land, yet he cannot do more than realise a certain profit upon his capital, say a profit of ten per cent.; and it is assumed that with a less profit than this, men of business will not be satisfied. But when the change we have supposed has taken place, a lower rate of profit will prevail throughout the country, and men will now be satisfied with a smaller profit. Hence worse land than that which was before cultivated by B, would return sufficient to give that lower rate of profit with which men are now supposed to be satisfied. The margin of cultivation would therefore descend, the land occupied by B would cease to be the worst under cultivation; and this land, instead of paying a nominal rent, would now yield a rent which might be estimated by the difference between its nett produce and the nett produce of the inferior land which has been brought under cultivation in consequence of the reduction in the general rate of profit. It is, therefore, manifest that such a reduction in the general rate of profit would cause the rent of all land to rise. Australia will some day offer a striking example of a rise in the rent of land, caused in the manner we have just described. The great inequality in the rates of profit,

Case of Australia.

current in England and Australia, cannot permanently continue; and when profits in Australia are reduced to what they are in England, a vastly increased area of land will be brought under cultivation in Australia; the margin of cultivation will rapidly descend, and the rent of land will be greatly increased.

Rent is affected by improved methods of cultivation.

We will now discuss some of the other causes which may affect the rent of land. The productiveness of land has already been much increased, and is perhaps destined still farther to be increased by improved implements. Confident predictions have been made by competent persons that steam cultivation will materially diminish the cost of tillage. If this be the case, the nett produce of every farm, as we have defined it, will be greatly increased, and, therefore, rents will as a consequence rise from this diminution in the expense of cultivation. But when rents rise, the margin of cultivation will descend; for if the cost of cultivation is diminished by steam machinery, land may be profitably cultivated which before would not pay the expenses of tillage. The farmers, therefore, will ultimately receive no special advantage from the introduction of improvements in the method of cultivation. Temporarily they may be benefited; for those who first avail themselves of the improved machinery may for a long time continue to derive an important advantage, because, until the machinery has been generally introduced, rents will not be raised. Ultimately, however, the whole of the advantage will be absorbed by the landlords; for if the expenses of cultivation are diminished, the farmers will be able to pay a higher rent, and the competition of capital will render it impossible to resist the increase of rent. We have purposely said that the landlords, and not the farmers, will derive a *special* advantage, because, in one sense, the farmers, conjointly with every other class in the community, will be benefited, since, if the expenses of cultivation are diminished, the cost of production is diminished, and, therefore, food will be cheapened. The effect which may be thus produced by cheapening food, at once suggests questions of the greatest importance. These, however, we must reserve until we treat of exchange, in the next division of the subject.

These conclusions

We will here take the opportunity of remarking that

we have as yet said nothing about the value of those shares into which any wealth which is produced may be distributed. All such questions with regard to value cannot be appropriately considered until we treat of exchange. When, therefore, in this chapter we have alluded to particular circumstances which will increase rents, we attribute the increase not to any rise in the price of agricultural produce, but we refer the increased rent entirely to a different distribution of the produce of the land, more advantageous to the landlord. Thus the distribution will be changed in the following manner, when the use of improved implements diminishes the expense of cultivation: The profits of the farmer and the wages of his labourers will remain as they were before; but the landlord will receive, in addition to the rent which is previously paid to him, all that is saved in the expense of cultivation. It is very important to bear this in mind, because a confusion may arise very embarrassing to the reader; for in popular phraseology rents are often said to rise without any alteration in the relative amounts received by those classes amongst whom the produce of the land may be distributed. If, for example, a landlord's rent is a certain portion of the produce of the land, then his rent is said to rise if anything should occur to increase the value of this produce. Before the Tithe Commutation Act was passed, the tithe was a rent-charge amounting to one-tenth of the produce. If it had not been for this commutation, tithes would be considered at the present day to be increased by two distinct causes; for, in the first place, since more produce is now obtained from the land, the tithe would be increased in quantity; and, secondly, even if the tithe was not increased in quantity, its amount would be increased if there had been an augmentation in the value of agricultural produce. But we must postpone considering an increase of rent which is represented, not by a larger amount of produce, but by a rise in the price of this produce; for when discussing the distribution of wealth we must suppose that rent, profits, and wages are received in kind. Distribution is concerned with the laws which regulate the absolute and relative magnitude of those portions into which wealth is distributed; and it belongs to the subject of exchange to

will require further consideration when we come to speak of value.

examine the causes which determine the value of an individual's share of the profits derived from some industrial source, such as a farm or manufactory.

Causes tending to raise or lower rents.

Returning, now, to those causes which affect rents in the sense just described, it becomes obvious, after what has been stated with regard to improved machinery, that rents must be increased by any circumstance which diminishes the expense of cultivation; and, conversely, rents must be diminished, if the expenses of cultivation should be augmented. Such an augmentation will, in all probability, be caused in a few years by a rise in the wages of agricultural labourers. Agricultural labourers in this country have long been worse paid than any other labourers. Each year, however, many influences are brought more powerfully into operation, which will tend to remove such inequalities in the remuneration of different classes of labourers. Increased education will make those employed in agriculture more keenly desirous to sell their labour on the best possible terms. The rapid extension of our railway system enables labourers to pass easily from one district to another. Emigration has already materially raised the general rate of wages throughout the country; and the influence thus produced by emigration is probably destined to be much more strikingly exhibited. But if labourers receive higher wages, or, in other words, an increased share of the aggregate produce, there will be a smaller remainder left to be distributed between rent and profits. If the rise in wages is accompanied with no reduction in the general rate of profit throughout the country, then rents must suffer. This is sure to be the case if the rise in wages is not general, but is confined to agricultural labourers, because, under such a supposition, nothing would have occurred to affect the general rate of profit in other businesses, and, therefore, the profits made by farmers cannot continue to be exceptionally lower than the profits realised in other trades. But the theory of Ricardo supplies a test which will indicate how rents are affected by any change in the economical condition of the country. This theory defines the rent of any particular land to be the difference between its produce and the produce of the worst land in cultivation. Therefore, the important thing to ascertain is,

Rise of wages of agricultural labourers.

whether the margin of cultivation has or has not descended. If, for instance, the wages of agricultural labourers were materially to increase, without any alteration in the value of agricultural produce, and without the introduction of improved methods of tillage, much of the land which is now cultivated would cease to return any profit; the margin of cultivation would ascend, and there would be a general fall in rents. In this sense, therefore, the interest of the landlord is opposed to that of the labourer. Again, if the general rate of profit throughout the country was to rise, the profit realised by farmers would also rise. The poorest land in cultivation would not yield to the farmer this increased rate of profit. This worst land, therefore, would cease to be cultivated, the margin of cultivation would ascend, and in this case, also, the rent of land would be reduced. A rise, therefore, in the rate of profit, or in the rate of wages, unless accompanied by some counteracting circumstances, will cause rents to decline. Hence, it would appear that the interest of the landlord is opposed to that of the labourer and the capitalist. This conclusion has been the source of much of the opposition expressed towards Ricardo's theory. But it is difficult to understand why such a conclusion should be regarded as so very objectionable. If the produce of the land is distributed amongst rent, wages, and profits, it is obvious that the more there is allotted to labour the less there will remain to be appropriated as rent. The opposition of interest intended to be expressed by Ricardo, does not imply that the interests of any one class are opposed to the general welfare of the country, for all the three classes may participate in any general improvement. Thus, if an increased quantity of produce is obtained from the land, there will be more to be distributed, and rents, wages, and profits may be simultaneously increased. The opposition of interest which we have spoken of only refers to variations in the relative magnitude of those portions or shares into which wealth is distributed.

In what sense the interests of the labourer and landlord are opposed to each other.

The rent of land is, however, far more powerfully affected by an increase or decrease of population than by any other circumstances. Within a comparatively short period the population of Great Britain has increased 25 per cent. This implies that at least 25 per cent. more food is re-

How the increase of population affects rents.

quired. Let us for a moment consider what would occur if this increased supply of food had been obtained from our own soil. In the first place, more land must be brought under cultivation; the farmer would be remunerated for cultivating his worse land by a rise in the price of food. The margin of cultivation would thus be greatly lowered, the rent of all land would therefore be greatly increased, the farmers would be able to pay these higher rents, because the price of agricultural produce had risen. It therefore appears that a very considerable rise, both in the rent of land and in the price of food, must have inevitably accompanied this increase in our population. The rise in the rent of land would, under such circumstances, be assisted by two distinct causes: in the first place, rents if received in kind would be increased, because the margin of cultivation has descended, and the produce thus received as rent would have been rendered more valuable in consequence of the rise in the price of food. But this rise in rent and in the price of food has been, to some extent, prevented, because a considerable portion of the additional food required for the increasing population of this country has been supplied by the vast importations of corn which have taken place since the removal of protective duties. There has, during the last ten years, been an average annual importation of 5,000,000 quarters of grain. Although rents would be far higher than they are now if we had been restricted to our own soil for the additional supplies of food required, yet if we now travel through the country, we observe tracts of highly-cultivated land which a few years since were open downs. A considerable portion of Salisbury Plain is now covered with comparatively luxuriant crops; but the cultivation of such land affords most unmistakeable evidence of the rise in the rent of land which has occurred during the last few years.

Part of the actual rent paid may be considered as profit on capital.

The remarks which have been made in this chapter on the subject of rent would seem to indicate that the rent of any particular soil depends upon its natural productiveness. But the value of land is rarely due entirely to its natural productiveness; little of the land which is now cultivated would be as productive as it is, unless capital had been spent upon it. The fens of Lincolnshire and Cambridgeshire were once worthless swamps, but drainage has

now converted these fens into most valuable arable land. In such a case, it would appear that the rent which is paid is almost entirely due to the capital which has been spent on these improvements. Hence this important question is suggested: Ought we to consider as rent the additional price which is paid for the use of land when its productiveness is increased by an outlay of capital on drainage and other such improvements? The rent of land whose productiveness has been artificially created, differs in no single respect from the rent of land whose productiveness has been chiefly derived from unassisted nature; and the amount of rent which is paid in these two cases is determined by the same causes. The farmer who cultivates a reclaimed fen, can afford to pay in rent just so much produce as is left to him, after all the expenses of his farm have been paid, and he has himself been reimbursed for his own labour and capital. He pays rent because he is allowed to cultivate a productive soil, and it is a matter of no concern to him whether the productiveness of the soil is due to natural or artificial causes. A portion of rent, therefore, may generally be considered to represent a return to capital which has been spent in improving the land. And thus rent, though generally paid in one sum to the same individual, is almost invariably made up of two distinct components which represent different claims, or, perhaps, more properly, different kinds of ownership in the soil. This may be readily shown by an example of frequent occurrence. By a recent Act of Parliament, the owner of even a life-interest in landed property is enabled to borrow money to be spent in drainage or other permanent improvements, such as the construction of better farm-buildings. The company or society who lends the money is guaranteed repayment by a rent-charge upon the land for a certain number of years. This rent-charge at the present time is usually 6 per cent. of the money lent, to be annually paid for twenty-two years. The tenants, who receive the first immediate advantages of these improvements, gladly allow this rent-charge to be added to the rents which they previously paid; and, in this manner, their rents are composed of two portions, one of which is paid for the use of the land, and the other is paid as a return to the capital which has been expended in improve-

Money borrowed for permanent improvements.

ments. A nobleman, whose family have been long embarrassed, and whose estates have been consequently much neglected, has, in this manner, within the last few years, spent 70,000*l.* in improving his estates. The whole of this sum has been borrowed upon the conditions above described. The advantages which have resulted from this expenditure have been so great and so immediate that the tenants can afford to have their rents increased by a much greater amount than the rent-charge of 6 per cent., guaranteed to the company which has lent the money. The landlord therefore does not, even in the first instance, incur any pecuniary sacrifice for these improvements, but, on the contrary, he at once obtains an increase of rent, and after the twenty-two years have elapsed he is able to appropriate to himself the entire benefits which arise from this improvement in his land. It seems difficult to explain why landlords who have not capital of their own do not more largely avail themselves of the great facilities which are offered to them for obtaining the requisite capital to improve their estates. In no epoch, probably, has the land of England been so greatly improved as during the last few years; but, nevertheless, in every county of England many important agricultural improvements, such as drainage and the construction of better farm buildings, still require the expenditure of a considerable amount of capital, to which not only a large prospective but even a large immediate profit would be returned.

Rent is not an element of the price of agricultural produce.

From Ricardo's theory of rent there can be deduced the very important proposition, that rent is not an element of the cost of obtaining agricultural produce. A no less eminent writer than the late Mr. Buckle has assured his readers that the proposition just stated can only be grasped by a comprehensive thinker; we, however, believe that it may be made very intelligible by a simple exposition. If rent is not an element of cost of production, food would be no cheaper if all land was arbitrarily made rent free. Let us, therefore, inquire if this would be the case. We have frequently stated in this chapter that there is always some land in cultivation so poor that it can only afford to pay a nominal rent, the produce it yields being no more than sufficient to reimburse the expenses of cultivation.

Simple proof of

Let us now suppose that all land is made rent free by

an arbitrary edict of the Government. Such an act of spoliation, although it would unjustly interfere with property, would not cause any diminution in the consumption of food; the same quantity of agricultural produce would be required as before; the same area of land would therefore have to be cultivated. That land would consequently still require to be tilled which previously only paid a nominal rent; but if food was rendered cheaper, by making land rent free, this land, which before only paid a nominal rent, would be cultivated at a loss. No person, however, will continue to apply his labour and capital if he does not obtain in return the ordinary rate of profit, and, therefore, if food became cheaper, such land as we have just described would cease to be cultivated; but this cannot be, because the demand of the country for food is such that the produce which this land yields cannot be dispensed with. It is therefore manifest that food would not become cheaper, even if land were made rent free. Rent consequently is not an element of the cost of production. The value of food is, *cæteris paribus*, determined by the demand for it, because the demand for food regulates the margin of cultivation. Although the payment of rent does not influence the cost of producing food, yet the amount of rent paid indicates the position of the margin of cultivation, and the value of food must rise as this margin of cultivation descends.

this proposition.

It has already been remarked that Ricardo's theory implies activity of competition. In many countries, however, this activity of competition does not exist, but is interfered with by various customs. We shall in succeeding chapters describe many of the various land tenures which exist in different countries, and we shall be thus led to consider whether the conclusions deduced from Ricardo's theory apply to those countries, such as India, where the tenure and the rent of land are influenced by various causes besides activity of competition.

Activity of competition is implied in the above.

CHAPTER IV.

ON WAGES.

Wages

IT has been impossible to expound the general laws of rent without mentioning the other two portions into which wealth is distributed; namely, wages and profits. But, as yet, we have not examined the laws which regulate wages and profits; it will, therefore, be convenient in the first place to devote a chapter to the subject of wages; we shall then consider profits; and when we have thus completed an examination of the laws concerning rent, wages, and profits, we shall be in a position more clearly to understand some special but important questions concerning the distribution of wealth.

depend upon the relative rates of increase of capital and population,

In previous chapters it has been shown that capital is the fund from which labour is remunerated. It thus becomes obvious that wages in the aggregate depend upon a ratio between capital and population. If the number of the labouring population remains stationary, wages cannot rise, unless the capital of the country is increased; but if, on the other hand, there is an increase in the number of the labouring population unaccompanied by any augmentation in the capital of the country, then wages must decline. The truths which have been just stated are in popular language expressed somewhat differently, for wages are commonly said to be regulated by supply and demand. We shall be able to show that this means the same thing; but 'supply and demand' is one of those hackneyed phrases which are not unfrequently employed by those who have no accurate knowledge of political economy. Let us, in the first place, inquire what is the meaning of the expressions 'demand for labour' and 'supply of labour.' A demand for labour can only be caused by those who have

the means of remunerating the labourer. But the remuneration which is intended to be given to the labourer is capital; therefore those only can exert a demand for labour who can apply capital for the remuneration of labour, and the greater the amount of capital to be applied in this manner, the greater will be the demand for labour; it therefore appears that the expression 'demand for labour' may be replaced by some such phrase as 'capital seeking to be devoted to the employment of labour.' Again, supply of labour may be estimated by the number of those who are anxious to labour; consequently an increase in the supply of labour is equivalent in its meaning to an increase in the number of the labouring population. When, therefore, we say that wages depend on the ratio between capital and population, we state the same principle as those who affirm that wages are regulated by demand and supply. This latter mode of expressing the principle is not incorrect, but the words demand and supply convey no definite meaning, whereas every law concerning wages must be deduced from the fundamental conception of a ratio between capital and population.

which is equivalent to saying that they depend upon supply and demand.

The law just stated goes no farther than to indicate the source from which wages are supplied; this law affirms that wages cannot generally rise or fall, unless the capital or population of the country is either increased or decreased. This law also indicates the only means by which the material condition of the labouring classes may be improved. Few questions have a more practical or pressing importance. The middle and upper classes profess a philanthropic feeling towards the poor, and express an anxious hope that their poverty may be alleviated. Let us endeavour to understand the true causes of poverty, with the view of turning this sympathy to some practical purpose. When regret is felt that an agricultural labourer only earns nine shillings a week, care should be taken clearly to comprehend the reason why his wages are so low. In no country has capital increased so rapidly as it has in England during the last few years; the extension of our commerce and the increase of our national wealth have been quite unprecedented. Numberless statistics may be quoted, each of which would prove a

Effect of this upon the condition of the labouring classes.

Why the increase of wealth has not improved their condition.

wondrous development of our commerce and trade. In twelve years, from 1849 to 1861, our exports advanced from 60,000,000*l.* to 120,000,000*l.*, and our imports in the same period nearly doubled. But this increase of national prosperity has as yet made but little impression upon the condition of the labouring classes. This is a melancholy and a surprising fact. Those who regret the circumstance, but do not understand its true cause, too frequently indulge in vague denunciations against the avarice of the employers, and the tyranny of competition. But the employers are not to blame, and it has been shown in a previous chapter that where competition is active it secures to the workman the best possible price for his labour. The increase of national wealth has been accompanied by such a large accumulation of capital that there has been no deficiency in the demand for labour. If, therefore, wages have not advanced, the supply of labour must have kept pace with the demand for labour, or, in other words, the rise of wages which would have resulted from an increase of the national capital has been counteracted by a corresponding increase in the number of the labouring population. If, therefore, wages do not rise when the wealth and capital of the country increase, it is solely and entirely because an increase of population causes a greater supply of labour. The labourers cannot fully participate in the advantages of a growing national prosperity, unless population is in some way or other restrained. Malthus was the first to enunciate this truth in his celebrated Essay on population—a work which gave a new aspect to the speculations of political economists. In this essay the restraints upon population are classified as positive and preventive. Positive checks on population are, according to Malthus, causes over which an individual has no direct control, such as the mortality arising from famine, disease, or the ravages of war. In all civilised countries, a certain number of people are restrained from early marriages by feelings of prudence, and then the population is kept down by what Malthus called a preventive check. Malthus examines the social condition of each country, with the view of ascertaining whether preventive or positive checks are most efficient in restraining their population. The description which from this point

Malthus's Essay on Population.

of view he gives of the most important countries may be still read with great interest. His entire essay is most suggestive, and the time which has elapsed since its first appearance at the commencement of the present century, has little detracted from its value or importance.

Necessity of some checks to population

It is quite evident that population must be restrained by some checks, for if all married when they arrived at maturity, this earth would not merely fail to feed, but would scarcely even offer standing-room for the countless millions that would be born. This may be exemplified by an illustration from natural history: 'the elephant is reckoned the slowest breeder of all known animals, and I have taken some pains to estimate its probable minimum rate of increase. It will be under the mark to assume that it breeds when thirty years old, and goes on breeding until ninety years old, bringing forth three pairs of young in this interval. If this be so, at the end of the fifth century there would be alive fifteen million elephants, descended from the first pair*.' The population of a country, under favourable circumstances, has been known to double in a period of twenty years, and so great is the power of man's multiplication, that the world might soon be far more densely populated than it is now, by the progeny of a single pair, if none of those positive or preventive checks which act in various countries were brought into operation. It is the opinion of Malthus, that throughout the East, and formerly in most European countries, a population has been restrained by such positive checks as famines, destructive wars, negligent rearing of children, and the unskilful treatment of terrible diseases, not unfrequently caused by an insufficiency of food, and which often appeared in the form of periodic plagues. In almost every country these checks still operate, but with much less powerful effect. In England, for instance, there is a great mortality amongst children, which is no doubt chiefly due to neglect on the part of the parents. In many districts one half of the children belonging to the poorer classes die before they are five years old. In some European countries, population is restrained by law. In Norway, no couple is allowed to marry until it can be proved that the man and wife possess jointly a certain amount of

* Darwin, 'Origin of Species.'

money. In other countries, prudential feelings, which almost amount to a general custom, prevent early marriages, and in this manner restrain population. In some of the Swiss cantons, a man rarely marries before he is thirty, nor does a woman marry before she is five-and-twenty.

in all, except a few exceptional cases.

In some exceptional cases, the condition of the labouring classes may for a time suffer no deterioration, although population be unrestrained by either positive or preventive checks. In a new colony with a healthy climate, and a great breadth of fertile and unoccupied land, population may for a time continue to expand with scarcely any let or hindrance; but in a country like England, if the population were not restrained by some checks, the labour market would soon become so redundant that the labourers would be reduced to abject poverty and misery. It cannot be expected that capital will in this country be more rapidly accumulated than it has been within the last twenty years; the wages of labourers, therefore, cannot rise, unless population is restrained more than it has been. The middle and upper classes display, as a general rule, considerable prudence: they do not often marry unless they have a reasonable prospect of being able to bring up a family in a state of social comfort, similar to that to which they themselves have been accustomed. But the labourers, who form the majority of the population, are but slightly influenced by such cautious foresight. Even a trifling temporary improvement in their material prosperity acts as a powerful impulse to induce them to marry; for it is a demonstrated statistical fact, that the number of marriages invariably increases with the decline in the price of bread. In the case of the labouring classes, prudence is replaced by other restraints upon population, which indicate a state of society deeply to be deplored. Of the children belonging to the upper and middle classes, only twenty per cent. die before the age of five. This proportion is more than doubled in the case of children belonging to the labouring classes. This great mortality amongst poor children is caused by neglect, by want of proper food; sometimes the parents are too poor to rear their children properly, but too frequently the premature death of children is due to drunkenness and other excesses of which their parents are

Prudential checks to population

are not sufficiently strong in the labouring classes.

guilty. If, therefore, the children of the poor had during the last ten years been treated with proper care, there would be in this country, at the present time, 1,150,000 more children than are now living. In this manner the supply of labour may be vastly increased. And yet, if any faith is placed in the progressive improvement of the people, it must be believed that the check upon population just noticed, so replete with misery, and associated with so much human depravity, will be gradually weakened. But if this be so, then it becomes of paramount importance that the labouring classes should, with regard to marriage, exhibit prudence; for if increased prudence is not exercised, when these positive checks upon population are removed, the labour-market will be so over-supplied, that the material condition of the labourer must rapidly deteriorate.

One check upon population which has not yet been referred to has relieved this country of much surplus labour and has been peculiarly beneficial in all its other consequences. During the last few years, there has been a large emigration from Great Britain to the United States, and to our various colonies. Between the years 1848 and 1864 the total number of emigrants from the United Kingdom was 3,350,000. Had there not been this emigration, these three millions would have remained at home to have shared the wage-fund with other labourers of the country, and wages would have been greatly reduced. But this consideration suggests only a very small portion of the advantage which has resulted from this emigration. Our emigrants leave an over-supplied labour-market, and settle in countries where great natural resources have been undeveloped, and where vast tracts of fertile land have been untilled, because no adequate supply of labour has been forthcoming. The returns to labour applied under such favourable conditions are of course very great: wealth is quickly created, and tracts of land thus peopled by our emigrants rapidly become prosperous commercial communities. Many of the nations which have been, as it were, created by our emigration, afford the mother-country a supply of cheap food, and thus confer upon her a most important benefit. This naturally leads us to consider other causes which produce a deterioration in the condi-

Emigration as a check to population.

tion of the poor, and which also impede prosperity, when, in a thickly-peopled country like our own, population is not either restrained, or else relieved by some such agency as emigration.

The tendency of food to become dearer as population advances, injures the labourer.

It has been frequently stated that agricultural produce must rise in price if it becomes necessary to resort to less productive land in order to obtain food for an increasing population. Rent, as we have already demonstrated, does not form a part of the cost of producing food, for its price is regulated by the expense of obtaining produce from land which is so poor that it can only pay a nominal rent. If, therefore, the population of this country rapidly advanced, and the demand for food became so great as to render the resort to less productive land necessary, then food would become much more expensive. It must be always borne in mind that food must rise in price as population increases, unless supplies of cheap food are imported from other countries, or agricultural improvements render our own soil more productive. If, therefore, emigration does not relieve the labour-market of its surplus population, the condition of the labourer will be injuriously affected in two distinct ways: in the first place, his money-wages will diminish, because there will be a greater number amongst whom to distribute the wage-fund; and secondly, the necessaries of life will rise in value, because there will be a greater demand for food. If our constantly-increasing population had to be supplied with food entirely from our own soil, it is doubtful whether a sufficient quantity of even the necessaries of life could be obtained; but even if there were not an absolute dearth of provisions, food would under such circumstances enormously rise in value, and the greatest distress amongst the labouring classes would be sure to ensue.

This evil is greatly obviated by emigration.

The remarks just made upon the tendency of food to become dearer as population advances, indicate another most beneficial influence resulting from emigration; for not only is the home labour-market relieved by emigration, but it also promotes the development of countries to which England must chiefly look for supplies of cheap food. Emigration, therefore, is not only a check upon population, but it is in every respect most beneficial in its results; it causes wages to rise, or rather prevents their

fall in those countries from which emigration takes place; and by providing supplies of cheap food, it indirectly confers upon the labouring classes another most important advantage. It must however be remembered that emigration must, after a time, cease to be a remedy for over-population. Some of the facts already mentioned show that population has, under favourable conditions, such a high rate of geometrical increase, that our colonies might, before a long period has elapsed, become as thickly peopled as the mother-country. Emigration would then no longer afford relief.

It has now been pointed out that the average rate of wages received throughout the country depends upon a ratio between capital and the number of the labouring population. The capacity of the labouring classes to increase is so great, that if some powerful checks are not placed upon population, the condition of the labourer must rapidly deteriorate; for the greatest accumulation of capital that has ever occurred would entirely fail to create a demand for labour in any way proportionate to the supply of labour which would be forthcoming, if man's power of multiplying his species were not restrained by some very efficient causes. When indicating the various ways in which population may be restrained, particular importance has been attributed to emigration, in the case of a thickly peopled country such as England. The future progress of such a country depends to a great extent upon her capacity to obtain supplies of cheap food; it has been shown that emigration not only relieves her from the burden of a surplus population but also powerfully promotes the development of those new countries from which cheap food is mainly imported.

Variation of wages in different employments.

Many important questions connected with wages still remain to be explained; such, for instance, as the different rates of remuneration received in different employments. For not only are higher wages paid in some trades than in others, but it may be frequently observed that the wages of one particular class of workmen may rise or fall to a very considerable extent without any variation at the same time taking place in the wages of other employments. Special circumstances are connected with various employments, which must have the effect of

producing permanent variations in the wages paid in different trades. Adam Smith divides the causes which produce different rates of wages into the five following classes:—

Causes assigned by Adam Smith.

1st. The agreeableness or disagreeableness of the employments themselves.

2nd. The easiness and cheapness or the difficulty and expense of learning them.

3rd. The constancy or inconstancy of employment in them.

4th. The small or great trust which must be reposed in those who exercise them; and

5th. The probability or improbability of success in them.

Agreeableness of the employment.

Examples of the effects which may be attributed to each of these different kinds of causes will readily suggest themselves. A collier proverbially earns higher wages than even many skilled workmen in his own district. A collier, not working so many hours in a day, will often earn more wages than a carpenter. But coal mining is not only a very laborious, but a very dangerous occupation. The work is dirty: a man has to labour in the dark, and often in very bad air. When all these circumstances are considered, it is easy to understand that men would not work in coal mines unless they were induced to do so by very high wages.

Difficulty of learning it.

The second circumstance mentioned by Adam Smith probably produces a greater influence on wages. If a trade is difficult to learn, an apprenticeship fee has often to be paid as a premium for the necessary instruction. This, in the first place, greatly limits the number of those who can be brought up to the trade, for comparatively few labourers, even if they were inclined to do so, have the means to pay such a fee for any of their children; but the apprenticeship premium represents only a very small portion of the cost a parent must bear if he brings a child up to a skilled trade. An apprentice not unfrequently works for four or five years without receiving any wages at all, and therefore such a youth, until perhaps he is twenty years of age, must be kept by his parents. If, however, he had entered upon some ordinary, unskilled employment, he would have been receiving increasing wages from the

time he first began to work. Every skilled workman has had a certain amount of capital spent in acquiring the skill his trade requires, and this capital would of course not be spent unless an ample future return was given to it in the form of higher wages. The difference in the wages of skilled and unskilled labour represents a large return to the capital which has been spent in the skilled workman's education. This must be so, whilst so few of our workmen have either the foresight or the means to bring their children up to some skilled employment. Skilled workmen therefore possess, as it were, the advantages of a monopoly. In some skilled employments a monopoly is created by nature, for the skill required is so great that few have the natural capacity ever to acquire it. Thus, as it has been previously mentioned, there is a very limited number, amongst all the watchmakers in England, who can ever acquire that delicate accuracy of workmanship which is needed in the construction of a chronometer. Such workmen, therefore, are endowed with a natural monopoly, and they can, within certain limits, obtain almost as high wages as they choose to demand.

Constancy of the employment.

The third circumstance mentioned by Adam Smith—namely, the constancy or inconstancy of employment—he very aptly exemplifies by the case of builders' operatives. 'In the greater part of manufactures, a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any work. What he earns, therefore, while he is employed, must not only maintain him when he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. When the computed earnings of the greater part of manufacturing operatives, accordingly, are nearly upon a level with the day wages of common labourers, those of masons and bricklayers are generally from one half more to double those wages.'

Amount of trust re-

With regard to the fourth cause mentioned by Adam Smith, it may be remarked that, when a great amount

posed in the labourers.

of trust is requisite to be reposed in a labourer, his wages are of course higher. A labourer, when he has demonstrated that he possesses such qualities as will cause his employer to place confidence in him, can claim higher wages, and the employer who gives these higher wages is abundantly recompensed. A jeweller has to intrust valuable property to his workmen, and if confidence could not be reposed in these workmen, their employer would be at a considerable outlay in order to have them constantly watched, and he would be likewise subjected to various other losses and annoyances. A considerable portion of the cost of any commodity does not arise from the labour employed in actually producing it, but is caused by the expense of superintending and watching this labour. An employer might dispense with such an outlay if he felt assured that his workmen could be trusted; and such an employer would readily devote a part of the expense thus saved to raise the wages of those he employed.

Probability of success.

The following is the fifth and last cause enumerated by Adam Smith. 'The wages of labour in different employments vary according to the probability or improbability of success in them.' This circumstance but very slightly affects those who are usually considered to belong to the wage-receiving class. If a youth is brought up as a shoemaker, it is almost certain that he will acquire the art of shoemaking. In some of the liberal professions, however, such as the law and medicine, the large remuneration received by a few may perhaps be considered to be partly counterbalanced by the number of those who fail to earn from these professions a competency in any degree proportioned to the expense which their professional education has involved. But we think Adam Smith, even in the case of the liberal professions, has attributed too much influence to the cause above mentioned. The uncertainty of success in such a profession as the bar is not due to a difficulty of ascertaining beforehand whether an individual possesses those talents which will fit him for such a profession. Success is uncertain, because it depends on extraneous conditions which an individual cannot control. A barrister may have brilliant abilities, but unless he happens to be acquainted with solicitors he may wait for years without a brief. In many professions, too, although

Effect of this in the liberal professions.

the fees paid appear to be high, yet the average earnings are extremely small. Moreover, in the choice of a profession other motives act more powerfully than a prospect of gain: a profession gives position in society, and men of property are often happier with an occupation than without one. When therefore any question is considered relating to wages, or to the profits of trade, a distinction ought to be made between the liberal professions and other occupations which are resorted to almost entirely for the purpose of gain. A clergyman who is only obtaining 90*l.* a year, may feel assured that if he were engaged in some other occupation his income would be far larger; but such a man may be prompted by a high sense of duty to enter the Church, or he may be influenced by the social position he would obtain in it, and therefore he chooses his profession independently of pecuniary considerations. With regard to trade, no such feelings can exercise any practical influence; no one can feel that it is his duty to be a grocer rather than a baker; a man usually chooses the trade or employment to which he has been brought up, or the one in which he thinks he can earn the most money with the most pleasure, or rather the least inconvenience to himself.

The five classes of circumstances to which Adam Smith attributes the different wages paid in different employments have now been enumerated. Considerable influence is no doubt produced by each of these classes of circumstances; but wages are perhaps more affected by other causes which are much less frequently considered. For instance, a fact with regard to wages must have been noticed by even the most casual observer, since not only do the wages of different employments vary, but there are great variations in the wages obtained in the same employment in different parts of the country; it may moreover be remarked that variations of this kind are particularly striking with regard to many unskilled employments. During the winter months an ordinary agricultural labourer in Yorkshire earns thirteen shillings a week. The wages of a Wiltshire or Dorsetshire labourer doing the same kind of work, and working a similar number of hours, are only nine shillings a week. This great difference in wages is not counterbalanced by other considerations;

Other circumstances produce a variation of wages.

They vary in different districts.

living is not more expensive in Yorkshire than in Dorsetshire, and the Dorsetshire labourer does not enjoy any particular advantages or privileges which are denied to the Yorkshire labourer. This inequality in wages is not merely a temporary difference, and the question naturally arises, How can such a great variation in the wages of the same employment be permanently preserved? Why does not the Dorsetshire labourer remove to Yorkshire, where he would be able to obtain forty per cent. more for his labour? The obstacles, however, to such a migration are too formidable to be overcome even by such a premium as is offered by this difference in wages. In the first place, a Dorsetshire labourer can seldom either read or write; he therefore has little or no information with regard to the wages paid in other districts. His ignorance magnifies the difficulties of removing to a distant part of the country, and makes him disinclined to leave the locality to which he has been accustomed. Again, if he has a family, he is far too poor to pay the expense of conveying them to a comparatively distant place: for it is a fact I have personally verified, that in those counties where wages are lowest, an agricultural labourer has rarely saved even a few shillings.

The law of settlement.

Moreover, there is associated with our system of poor-relief a law of settlement which has often bound and fettered the labourer to the district in which he was born. No law has perhaps ever more grievously oppressed a class. A man by resorting to a place not far distant may much improve his position; employment there might be much better, and he would therefore get higher wages; but the law of settlement often prevents him availing himself of these advantages: he is not allowed to settle in another district because it is feared that he or his family may some day become chargeable on the poor rate.

The combined influence of the causes just enumerated prevent labourers readily migrating from one district to another in order to avail themselves of the advantages which they would secure from a greater demand for their labour. A more accurate conception is therefore obtained of many of the phenomena connected with wages, if a country like our own is considered to be composed of distinct provinces between which there is little migration of labour and in which within certain limits

different rates of wages prevail, or, in other words, different relations exist between population and capital, or between the demand for and the supply of labour. It is important to bear this in mind when we practically apply those general laws of wages described at the commencement of this chapter. But let it not for one moment be supposed that these laws are less true because it is necessary to place some limitation upon their general application. The wages of the Dorsetshire labourers depend as absolutely on a ratio between capital and population as if these labourers readily passed from one part of the country to another; but their wages are far more affected by an increase or decrease of capital and population in their own district than by any change in the capital or population of the whole country. It is also evident that if Dorsetshire labourers will not go to Yorkshire, the wages of the Yorkshire labourers are but slightly affected by an increase in the population of Dorsetshire. But wages in Yorkshire will inevitably be affected if there is any alteration in the amount of the capital invested in the district, or if there is any increase or decrease in the number of those who are seeking employment in the locality. If therefore the wages in any particular district are too low, there is only one way in which they can possibly be raised. Mere sympathy can do little in advancing the wages of the Dorsetshire labourer: his condition can only be improved either by bringing more capital into the county, or by diminishing the supply of labour. This may be affected either by foreign emigration, or by some of the able-bodied labourers removing from these ill-paid districts to localities where wages are higher.

These facts are consistent with the principles stated above.

Means of improving the labourer's condition.

Every year various causes are in operation which act with increasing effect to lessen these inequalities in wages which we have just been noticing. A few years since the greatest differences in the price of commodities prevailed in different parts of the country. Communication was so difficult, that some article of food which was often an expensive luxury in one part of the country could be had in abundance in another part. Poultry was four times as dear in London as in many country districts. Railways have changed all this, and now provisions are almost as cheap in London as they are at a distant place like Aber-

The difference between rates of wages in different districts tends to diminish.

deen; and as people gradually avail themselves of the easy means of communication between one district and another, wages in the same employment will throughout the country approximate to one uniform rate. The more intelligent of our workmen freely leave the place in which they are employed if they think that by doing so their prospects are improved. As our agricultural labourers gradually become more intelligent, they will show an equal readiness to avail themselves of any advantage offered to them by a more favourable state of the labour-market in some other locality.

Causes which make wages higher in Yorkshire than in Dorsetshire.

Although it has been stated that a higher average rate of wages prevails in Yorkshire than in Dorsetshire, yet the causes which produce this difference in wages have not yet been fully explained. As wages depend upon a ratio between capital and population we must enquire why does the capital invested in agriculture in Yorkshire bear a different relation to the number of the agricultural population from that which it bears in Dorsetshire? Yorkshire, unlike Dorsetshire, is not merely an agricultural county: it has a most thriving manufacturing industry; therefore in the former county a great many other employments besides agriculture compete for the labour of the agricultural population. It is true that an agricultural labourer is not suddenly converted into a cloth-weaver. Such a transition rarely takes place, but if there is a manufactory close at hand, many of the children of the agricultural labourers will be employed in it. There is always connected with an active manufacturing industry much subsidiary work which can be performed by any ordinary labourer. Such work, consequently, draws off many labourers from agriculture, and thus the higher wages paid in Yorkshire may be entirely explained by those general laws which regulate all wages: for there, as in every other case, it is a question between population and capital, the agricultural population of Yorkshire being diminished by the frequent employment of the labourers themselves in other work, and by the engagement of their children in manufactories.

Influence exerted on

Before concluding this chapter it will be important to explain the influence which is exerted on wages by what

wages by good trade;

is called good or bad trade. In England, where capital is accumulated with such rapidity, the amount of capital invested in any particular industry could be immediately increased beyond almost any assignable limits. Suppose the prospects of the cotton trade were so good, that the Lancashire manufacturers thought they could profitably invest an additional 10,000,000*l.* in their trade. Many of them would withdraw capital for this purpose from other investments, and there would be no difficulty whatever in making up the whole 10,000,000*l.* required by obtaining advances from bankers and others on the credit of the individual manufacturers. It would not, however, be possible with equal rapidity to make such an increase in the labour employed in any particular industry. One who is accustomed to other work cannot without considerable practice acquire the skill of a cotton-operative. Many of the processes of cotton-spinning could not probably be learnt by an adult, for their manipulation requires fingers trained from childhood. New capital in various forms, such as larger quantities of raw material, may be at once brought into any particular industry; but when those who have been accustomed to the industry are once fully employed, an increased supply of labour can then be only gradually obtained. Hence it appears that the labourers of each separate trade possess, as far as the supply of labour is concerned, a monopoly for a limited period. This will explain the benefit which is observed to result to any class of labourers when their special trade happens to be prosperous. Reverting for an illustration to the manufacture of cotton, let us consider what takes place when this trade is unusually active, as it was during the years 1859—60. Throughout this period cotton manufacturers realised such large profits, that they were anxious to spin as much yarn and weave as much cloth as they possibly could. They therefore had every inducement to apply to their business the greatest possible amount of capital that was practicable; so far as depended upon the supply of capital, the cotton trade might have been at once indefinitely extended; but new mills and machinery require time for their erection. It was no use therefore for a manufacturer to buy more raw material, or employ more labour than was suited to the mills and machinery

by attracting capital to particular employments.

at his command. But every manufacturer during such times does as much trade as possible; he will therefore compete for labour; every cotton operative is thus certain to be fully employed at very high wages, and consequently the prosperity of any particular branch of trade, confers a great temporary benefit upon the labourers who are engaged in it. We say temporary benefit, because if the good trade continued, and wages remained exceptionally high, an additional supply of labour would at length be forthcoming. People would be gradually attracted from other worse-paid employments, because the high wages would offer them a temptation to learn the trade which is exceptionally prosperous. Every parent in the district would have a great inducement to bring his children up to this trade; and this accession of juvenile labour would be the chief source from which will be gradually supplied an additional quantity of labour, sufficient to meet the increased demands of the trade. If the skill which any industry requires is particularly great, the labourers of the trade possess a more complete monopoly, because under such circumstances it would be more difficult and take a longer time to import labour from other employments. The labourers fully understand the advantages of a trade monopoly, and they constantly strive to maintain such a monopoly by various restrictions as to the number of apprentices admitted into any trade. In order to effect these purposes, Trades' Unions have been established. It will be better, however, to defer our remarks upon these societies, and the various other means which have been often resorted to in order to secure higher wages, until the subject of profits has been discussed; for a complete investigation will then have been made into the general laws which regulate the distribution of wealth into the three primary divisions of rent, wages, and profits.

The benefit thus conferred on the labourers is temporary.

CHAPTER V.

PROFITS.

RENT, wages, and profits, the three portions into which wealth is distributed, denote the remuneration received by different classes of individuals for the assistance which they render towards the production of wealth. Those who have appropriated land receive a remuneration in the form of rent when they permit others to use the land which has been so appropriated. Those who apply their labour to the production of wealth receive wages as a reward for this physical exertion; and profits denote the remuneration which those receive who supply the remaining requisite of production, namely capital. As capital is the result of saving, the owner of capital exercises forbearance when he saves his wealth instead of spending it; profits therefore are the reward of abstinence, in the same manner that wages are the reward of physical exertion. If an individual invests a certain sum in any productive employment, his profits will consist of the entire surplus which remains after the capital has been replaced. Suppose an agriculturist cultivates his farm with a capital of 5,000*l.*; this capital will be composed of many different elements, such as stock, implements, and a fund from which he is able to advance the wages of his labourers. The profits of the farmer will consist of the surplus which remains, when from the whole produce of the farm sufficient has been deducted to replace the original 5,000*l.*, the value of the capital which the farmer possesses. But in such a case these profits of the farmer will not simply represent a return to his capital, or, in popular language, interest for his money; the farmer has probably given his own time and labour in watching those whom he employs, and in

Profits are the remuneration paid to the capitalist,

superintending the various operations of his farm: he has of course to be remunerated for his time and trouble, and therefore part of his profits represent the wages properly due to this labour of superintendence. Again, every business is attended with more or less risk. If a man invests his capital in the funds, he may regard it as perfectly secure, but capital invested in business can never be made equally secure against loss. There may be revulsions in trade, or bad debts; and property invested in any commercial undertaking is subject to depredations of the dishonest, and in some countries to the rapine of internal war. A capitalist therefore must receive some compensation for the increased risk of loss which is incurred when his capital is invested in trade; a portion of his aggregate profits represents this compensation. The profits therefore which a man obtains from his business are composed of the three following elements.

and may be divided into three parts.

1st. A reward for saving, or, more properly, a reward for abstinence.

2nd. A compensation for the risk of loss.

3rd. Wages for the labour of superintendence.

Reward for saving.

It is very easy to ascertain the portion of profits which ought in any particular instance to be allotted as the reward of saving. In every commercial country there are investments, the security of which is regarded as perfect. In our own country, for instance, the funds, a freehold mortgage, a stock guaranteed by our own Government—all these are securities which are regarded as free from risk. The interest which is obtained from capital invested in these securities may be considered as entirely the remuneration for saving. He who so invests his capital cannot receive any remuneration for risk, when there is none, and the investment entails no labour upon him. The interest which is obtained from such securities is termed the current rate of interest; and therefore the first element of which profits are composed may be always estimated in amount by the current rate of interest. If the current rate of interest is four per cent., a capital of 5,000*l.* would secure a profit of 200*l.* without the slightest risk or trouble. A person therefore who has 5,000*l.* invested in his business might consider that 200*l.* of his annual profits represents interest on capital, or, in other

Compensation for risk,

words, is the remuneration which he receives for his abstinence.

In many cases it is more difficult to estimate the amount of the second of the three elements of which profits are composed—namely, remuneration for risk. Sometimes, however, a man of business pays to others a certain portion of his profits to compensate him for any particular loss or risk to which his business may be exposed. Such a payment is termed an insurance. In this country it is almost a universal practice to insure against fire. Merchants insure their vessels against shipwreck; farmers not unfrequently insure their crops against the loss which may be incurred by severe hail-storms; farmers may also now insure their live-stock. The sum which is spent upon any of these insurances has of course to be deducted from the gross profits; but such insurances cannot cover the whole risk to which an individual's capital is exposed when invested in business. Thus the whole of a farmer's profits may be destroyed by unpropitious weather. In 1860 the crops were so bad, in consequence of the continued wet weather, that many farmers obtained no profit whatever; but although it is very difficult to apportion the exact amount of profits which might, in any particular business, be considered as a fair remuneration for risk of loss, yet it can readily be ascertained that some businesses and trades are subject to far greater risks than others; and therefore we should expect to find that the profits would be greatest in those trades which are most hazardous, so that the increased risk may be thus compensated. If an individual embarks his capital in some undertaking which he does not himself superintend, but which returns him a large interest, the excess of the interest so obtained above the current rate of interest represents the increased risk. Shares can always be purchased in English copper mines which will pay an interest of ten per cent., but it is impossible to foresee how long a copper mine will continue productive; every indication may be most promising, but a slight alteration in the strata may at once destroy the value of the lode. If, therefore, an individual obtains ten per cent. from a copper mine when the current rate of interest is only four per cent., six per cent. may be regarded as a return for the hazardous nature of the speculation.

and remuneration for superintendence.

The amount of the remaining element of which profits are composed—namely, the remuneration for the labour of superintendence—may be estimated by deducting from the gross profits the amount due to the first and second elements of profit which have just been mentioned. The remuneration which is obtained for this labour of superintendence is influenced by many of the same causes which affect the wages of ordinary labour. Some employments require for their superintendence greater skill, and greater patience, than others; some are more disagreeable to superintend than others. If this be so, then the remuneration of the labour of superintendence will be greater in one case than in the other. The caprice of society often gives to some employments a social dignity, which is refused to others; and this consideration enables us to explain the proverbially low profits obtained in this country from farming compared with the profits of many retail trades. Society now considers that a man of high family may with propriety occupy himself with farming; agricultural pursuits are extremely healthy, and thoroughly congenial to English tastes. A person does not require a tedious apprenticeship, or an expensive special education, to qualify himself to be a farmer. Many men therefore consider that they are almost sufficiently remunerated for the labour of superintending the cultivation of their farm by the health and pleasure derived from the occupation. They therefore do not expect to receive any considerable return for the labour of superintendence. The gross profits of farming are consequently extremely small, compared with the profits of many retail trades. A grocer not only expects to receive as much interest upon the capital invested in his business as does the farmer, but, in addition to this, must also receive an adequate remuneration for superintending the details of his business. A man is induced to carry on the grocery trade, with no other object but to obtain profit from it; he is not attracted to the occupation by the prospect of securing health and pleasure.

Interest on capital remains constant at the same time and place.

Interest on capital, insurance for risk, and remuneration for labour of superintendence, are therefore the three elements of which profits are composed. The first, interest on capital, is represented by the current rate of interest,

and therefore may be regarded as a constant quantity for all occupations at the same time, and in the same country. We say at the same time, and in the same country, because not only is the current rate of interest much higher in one age than in another, but very different rates of interest prevail at the same time in different countries. Thus the current rate of interest in England is now about 3½ per cent., whereas, two centuries since, it was at least eight per cent.; although at the present time the current rate of interest is only 3½ per cent. in England, it is nearly ten per cent. in Australia. The cause which produces these variations in the rate of interest will be explained in a future chapter.

Hence profits vary when compensation for risk and wages of superintendence vary.

In considering the profits of different trades, the amount to be allotted to interest on capital is the same for all trades in the same country; the different rates of profit which prevail in different occupations must, therefore, be attributed to variations in the remaining components of profits, namely, insurance for risk, and remuneration for labour of superintendence. If larger profits are obtained in one trade than in another, we must be sure that, in the one trade, capital is subject to greater risk than in the other, or the labour of superintending the one trade requires a higher remuneration than in the case of the other; if, therefore, in any trade a permanently higher rate of profit prevails than in other trades, it must be due either to the operation of these causes, acting singly, or combined. Agriculture has been quoted as an example, to show that the profits in a particular branch of industry may be extremely small, because various circumstances connected with the trade cause a slight remuneration to be given to the labour of superintendence. Consequently, the various trades and occupations of which the industry of the country is composed, will each have a scale of profits peculiar to itself, the appropriate amount of profits which belong to each trade being determined by various causes, just in the same way as the wages of different employments are regulated by particular circumstances, described in the last chapter. Such an assertion may, at first sight, seem to contradict a principle of political economy, perhaps more frequently quoted than any other; namely, that the profits of different trades have a constant

Each trade has a certain scale of profit,

which may be called the natural rate of profit.

tendency to become equalised. The principle, when properly understood, is true; the apparent contradiction admits of ready explanation. When the profits realised in any business are just sufficient to give an adequate compensation for interest on capital, for risk against loss, and for labour of superintendence, then it is said that the natural rate of profit is obtained; and hence it would appear that each separate trade has a natural rate of profit peculiar to itself, because this rate of profit must give a proper remuneration for the three elements of which profits are composed; and two of these, namely, the insurance against risk, and the wages of superintendence, vary in different industrial occupations. If the current rate of interest permanently rises, an effect is produced upon the profits of all businesses, and the natural rate of profit in every business rises. But if any circumstances should occur which should increase the chance of loss in a particular trade, without affecting others, then the natural rate of profit belonging to this particular business would be increased. The natural profits of farming are low, because English tastes are such as to make farming a pleasurable occupation. If the definition which has been given to the term 'natural profits' is borne in mind, there will be no difficulty in explaining what is meant by the popular expression, that the profits in different trades have a tendency to become equalised.

Profits of different trades do not tend to become equal,

The circumstances of various trades are intrinsically different—one business, as we have before remarked, may be a more hazardous speculation than another, and the trader who incurs this greater risk must be compensated by permanently higher profits; these higher profits, therefore, denote a real compensation, not a casual or temporary disturbance, and there is no tendency whatever to abolish the compensation by equalising the profits of the more hazardous trade with those of the less hazardous one.

but to reach this natural rate of profit.

But if, by some disturbing cause, the profits of a business rise or fall below that point which has been described to be their natural amount, a tendency at once is brought into operation to restore the equilibrium, and to make the profits return to their natural amount; this is the equalising tendency which affects profits, but there is no tendency to cause a uniform rate of profit to prevail in different trades.

It will be important to explain the mode in which this equalising tendency acts, both when the profits of trade rise above their natural amount and when they fall below it.

Example.

First, let us consider an example of a rise. During the years 1859 and 1860, the cotton trade was in a most flourishing condition; cotton spinners realised far larger profits than other manufacturers. The cause of this active trade was an abundant cotton crop in America, and an unusually large demand for cotton goods in the East. The American civil war quickly destroyed this sudden prosperity; a deficiency in the supply of raw cotton threw a gloom over the manufacturing industry of Lancashire; but if the American difficulties had not occurred, the profits of the cotton trade could not have continued to be what they were during the years 1859 and 1860. Profits were then suddenly raised greatly above their natural amount; they would, in the course of time, have inevitably been restored to their proper level by the competition of capital. In the first place, the large profits realised by the manufacturers would induce them to extend their trade as much as they possibly could; for they would know that, as long as the manufacture continued so thriving, their capital would not realise such large returns in any other investment. They would, therefore, be naturally anxious to withdraw capital from other investments, for the purpose of employing it in their own business. In a country where capital is so rapidly accumulated as it is in England, large amounts of capital are always available, if an eligible investment is offered. The transactions connected with the borrowing and lending of capital are carried on by bankers, stock-brokers, and bill discounters; all these are men of great acuteness and practical ability, who are ever ready to avail themselves of the slightest advantage which any particular investment may offer. When the profits of a manufacturer are extremely large, he considers that it will repay him to extend his business to its utmost possible limits, by applying to a banker, or discount-broker, for loans. In such prosperous times, he can offer favourable terms for these loans, and they are readily granted to him; and thus there is scarcely any practical limit to the amount of capital which may be

The profits of the cotton trade when unusually raised tended to sink.

The manufacturers would borrow more capital,

which would lower the profits in two ways,

suddenly brought into a trade, when it is in an exceptionally prosperous condition, and when its profits consequently rise above their natural amount. Such a sudden accession of capital may operate, in two distinct ways, to reduce profits. In the first place, there will be an increased demand for the raw material, and the raw material will consequently rise in price. Now it is a well-known fact, that a manufacturer is not immediately compensated for an increase in the price of the raw material by a corresponding rise in the price of his manufactured goods; consequently, the profits of the trade will be reduced if the anxiety to extend a particular manufacture, when trade is good, causes such an increased demand for the raw material that its price is raised. But as the manufacture is thus extended, the supply of goods would be largely increased, and will soon become perhaps more than sufficient to meet the demand. The cause which has mainly produced the prosperity and large profits of the trade will then cease to exist; for if the supply exceeds the demand, high prices will be replaced by low ones, and the profits of the trade will be quickly reduced. We cannot discuss at greater length the effect which is produced on prices by such an alteration in the supply of, or demand for a commodity as that just noticed, without anticipating the subject of 'value,' which will be considered in the next division of this work.

and more capital would be attracted from other trades.

There is, however, another equalising influence which will be brought into operation if the profits of any particular business continue long to exceed their natural amount. Not only will those already engaged in the business bring more capital into it when its profits exceed the natural rate; but other traders will be induced to embark their capital in an industry which is exceptionally prosperous. A similar influence to that above described, to reduce profits, will be thus brought into operation. But it would be very erroneous to conclude that these equalising tendencies are instantaneous in their effects.

These changes would take place slowly,

Augmented supplies of capital may be quickly brought into any particular trade, but the trade cannot suddenly be extended beyond certain limits. During 1859 and 1860 every cotton mill in Lancashire was probably producing as large a quantity of manufactured goods as it pos-

sibly could; the existing machinery was worked to its utmost, and however large might have been the supply of capital, the quantity of goods manufactured could be increased in no other way than by erecting new mills. But the construction of new mills and new machinery requires time, and during this time those engaged in the manufacture can take full advantage of the high profits. These considerations, however, suggest another circumstance which very materially reduces the high profits that prevail in times of active trade. In the case just described it is evident that as manufacturers will be anxious to extend their business as much as possible, not only will all their mills and machinery be in full work, but they will actively compete for labour. A considerable portion of the new capital which is attracted to the industry will consequently, in the first instance, be employed as circulating capital, or, in other words, will be paid away in wages. It has, however, been pointed out, in the last chapter, that the skilled labour which a particular industry requires cannot be suddenly increased by engaging labourers who had been accustomed to other occupations; consequently, the additional amount of circulating capital which is attracted to a trade by high profits is chiefly employed, not in obtaining labourers from other branches of industry, but in raising the wages of those who are already engaged in the trade. Such a rise of wages must exert a direct influence to reduce profits. It has therefore been shown that a rise in the price of raw material, a constantly increasing supply of goods, and an advance in wages, are three circumstances which are sure to reduce the profits of a particular trade, when they are exceptionally high. These reducing tendencies not unfrequently continue so long, that the profits of a trade are ultimately reduced below their natural amount; in fact, it may be often observed, that activity of trade is regularly succeeded by a corresponding depression. When, however, a trade is so depressed that its profits fall below their natural rate, then equalising tendencies are brought into operation, which raise the rate of profit; these tendencies we will now proceed to describe.

and would at first raise the rate of wages in the trade, and depress profits.

Let it be supposed that a trade has been affected by adverse circumstances, and that its profits are reduced

The contrary case.

Profits depressed below the natural rate tend to rise.

below the natural rate. In the autumn of 1862 the cotton trade was in an extremely depressed state. The price of raw cotton had risen so much, in consequence of the American civil war, that it was almost impossible, without incurring loss, to manufacture cotton goods at the prices they then realised. In fact, it would perhaps have been advisable for manufacturers to have closed their mills, were it not for the sufferings which would have been entailed upon the operatives. Under such circumstances, it was the interest of the manufacturers to contract their business; some mills were consequently closed, and great numbers worked short time. The supply of cotton goods has been thus for many years considerably diminished. In this way a tendency is brought into operation to raise prices, and profits will be gradually restored to such amount as again to make the manufacture remunerative. When trade is thriving everything is done to increase the capital applied in the business; but when trade is depressed, a directly opposite course is pursued; operations are restricted, capital is withdrawn, less is paid in wages, and new mills are not erected.

Case of the silk trade.

The circumstances, however, which have thrown the cotton manufacture into a state of stagnation, are so exceptional, that it will perhaps be more advisable to illustrate our remarks by considering the present condition of the silk trade in this country. It is supposed, by some, that the French possess natural advantages for the manufacture of silk, greatly superior to those of our own country. It is, for instance, said that, owing to the clear atmosphere of France, the silks assume a finer colour than those which can be produced in England. The French, it is also maintained, show greater taste in these finer manufactures. We believe that these advantages have been somewhat exaggerated. But there is no doubt that, at the present time, French silks are considered to be superior to English silks. The consequence has been, that since 1860, when the duty on French silks was removed, the English silk trade has been greatly depressed, and its profits have been reduced below the natural rate. Let us inquire what will occur if the supposed superiority of French silks is permanently maintained. The English silk trade will continue to be depressed; but the

question arises, Will the profits of this trade remain, therefore, constantly below their natural rate? It is impossible that such should be the case, for manufacturers will not continue an industry from which they realise less profit than in any other branch of trade. Silk manufacturers would, therefore, under the circumstances assumed, remove their capital as quickly as possible from this trade, and employ it in some other more remunerative way. The transfer cannot be made suddenly; it will require a considerable time, and must cause great loss to the manufacturers. All the fixed capital employed in the silk manufacture, such as machinery and buildings, cannot be adapted to other industrial purposes without involving a large outlay. The manufacturers, too, will not readily submit to the change; they will struggle with the adverse circumstances for a considerable time. No man, even independently of the pecuniary sacrifices involved, would willingly change a business to which he has been accustomed, and in which he has acquired a skill, for one to which he would be a stranger. A trade therefore, if its profits were permanently reduced below their natural amount, would, after a certain time, be entirely relinquished, and individuals engaged in the trade would be severe losers.

The effect produced by the depression of a trade upon the wages of the labourers employed in it.

It is scarcely necessary to observe, that under these supposed circumstances, the operatives in the silk trade would suffer even more severely than their employers. Each year as the depression continued the demand for labour would steadily diminish. Wages would become lower and lower, and a greater number of operatives would be thrown out of employment. There are always those who cling to hope, after all hope is gone. Many, consequently, would remain in the locality, eking out a miserable existence upon alms and parochial relief; and would thus become permanently pauperised. Those who are more sagacious or more enterprising would recognise the true state of the case, and would meet with promptitude the misfortune which had befallen their trade. Before their savings were exhausted they would emigrate to some foreign country, or migrate to some locality where the demand for labour was active.

It not unfrequently happens when a trade is depressed

that a great injury is done to the operatives by charity and by parochial relief. Labourers are thus induced to remain in the locality in which trade is slack; whereas, if affairs were allowed to take their natural course, or, if the money subscribed by the charitable were devoted to the promotion of the emigration and migration of labour, it would rarely happen that those who were employed in a depressed trade woud suffer any permanent injury. During the four or five years of the American civil war, when the cotton trade of Lancashire was almost paralysed, vast sums obtained by private subscriptions and by parochial relief were distributed amongst the Lancashire operatives. When this enormous almsgiving was taking place, everyone refused to notice a most significant fact, which if it had been regarded would have shown the grave error that was being committed. At the time when the trade of Lancashire was depressed, other branches of industry were so flourishing that there was no diminution, but an augmentation in the aggregate trade of the country. It was therefore clearly indicated that there was no falling off in the general demand for labour, but simply a transfer of a portion of the demand from one locality to another. The natural remedy was consequently to assist a certain number of the Lancashire operatives to migrate to those localities where a new demand for labour had arisen. A contrary course was adopted. These operatives were virtually bribed to remain in their own county, and the result is most disastrous. Up to the present time (the autumn of 1869) the cotton trade continues to be depressed. The operatives are only employed upon short time. Many are unable to find work. Lancashire is, in fact, burdened with a surplus population; and the steady increase in the number of her paupers is a striking and painful proof, not only of the suffering still endured by her artisans, but also of the injury done to her industry.

The case of the Lancashire cotton operatives described.

Having remarked upon the equalising tendencies which preserve the profits of each department of industry at a certain relative amount, designated the natural rate of profit, we shall next proceed to consider the causes which regulate the general rate of profit prevailing throughout the country at any particular time. It has been previ-

Causes which regulate the general rate of profit.

ously stated that the general rate of profit is higher at one time than at another, and that very different rates of profit prevail in different countries.

Statement that the rate of profit depends upon wages examined.

If any manufacture is taken as an example, it is manifest that the produce is shared between the employer and the employed; or, in other words, between profits and wages. In any given case, the more the employer receives, the less will be left for the employed; or, in other words, the more is taken in the form of profits, the less will be given in wages. If wages take a larger share of the produce, profits must take a smaller share. Suppose, however, that industry, by the introduction of new machinery, is rendered more productive, there will then be a greater quantity of produce to be distributed, and more may be apportioned to profits, without the slightest reduction in wages. But, although the amount of wages received might remain the same, yet it has been customary for political economists to say, that the rate of wages should be altered; for they conceive that the rate of wages is determined by the ratio which wages bear to profits. Ricardo employed the expressions, 'rate of wages,' and 'rate of profit,' to explain merely the terms of a ratio; and he would have said, that even if wages were reduced one half in amount, the rate of wages and the rate of profit would have remained unaltered, supposing that the reduction in wages was accompanied by a corresponding reduction in profits. Ricardo seemed to rejoice in a surprising paradox, and the paradox was often created by using language the meaning of which was somewhat obscure. Ricardo and others have asserted, that the rate of profit depends upon wages. This, if properly understood, is no doubt true; and profits may be defined to be the surplus which remains after the capital has been replaced which has, directly or indirectly, contributed to the production of wealth. The proportion this surplus bears to the capital which has been so expended determines the rate of profit. If the expenditure of a certain quantity of capital produces an amount of wealth equal to three times its value, then the surplus which remains, after the capital expended has been replaced, will equal twice the value of this capital; and, therefore, the rate of profit will, in this case, be two hundred per cent. But when it

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is said that capital is expended in the production of wealth, it is important to understand what this expression signifies A great portion of this capital is paid away directly in wages; the remainder is spent in purchasing materials or machinery; but even when such a material as coal is bought, the money with which it is purchased may be regarded as indirectly devoted to paying wages; for the money for which coal is sold pays the wages of all those who have contributed to raise it. The capital, therefore, which is applied to the production of any commodity is expended, either directly or indirectly, in wages. The rate of profit, as we have just remarked, depends upon the ratio which the whole produce raised bears to the capital expended in raising this produce; and, since this capital is expended in paying wages, Ricardo and others have stated that the rate of profit depends upon wages. This principle, however, is comparatively useless, and is moreover not strictly correct unless a particular signification is given to the terms employed in its enunciation. For if labour is rendered greatly more efficient, either by better education, by superior management, or by improved machinery, more produce will be raised by the application of the same quantity of labour. The same capital may be expended, or, in other words, the same amount may be paid away in wages; but, in consequence of the superior efficiency of labour, more will be produced. A greater amount, therefore, will be left to be apportioned to profits; thus the rate of profit will be increased, whilst wages remain unaltered. This is in direct contradiction to Ricardo's principle, that the rate of profit depends on wages; and, therefore, this principle is not correct, unless it is assumed that the efficiency of labour is a constant quantity.

In what sense it is true.

Correct statement of the principle, viz. that the rate of profit depends upon the cost of labour.

Mr Mill has shown that the correct way of stating the principle is, that the rate of profit depends on the cost of labour. The cost of labour is determined by comparing the wages the labourer receives with the amount of wealth which is produced by his labour. If, therefore, labour is rendered more efficient, the cost of labour is manifestly diminished, because either more produce is raised by the payment of the same amount of wages, or an equal amount of produce results from the expenditure of a smaller sum in wages. When labour is rendered more efficient, it

has been shown that the rate of profit will rise, although the same amount is paid in wages. Hence, if whilst each individual labourer receives the same remuneration, his labour produces more, the cost of labour is diminished. The rate of profit therefore varies inversely with the cost of labour. From this principle some most important conclusions may be deduced. If anything occurs to render labour more efficient, profits will be increased, assuming that the labourers receive the same wages as before. It also follows that, when labour becomes more efficient, the rate of profit, and also wages, may both be increased; for profits must be increased if the rise in wages is not so great as to make the cost of labour more than it was before the improvement in the efficiency of labour took place. With regard to agriculture, it has been frequently stated, that as land diminishes in fertility, the labour which is applied to it will diminish in productiveness. Twenty labourers working on poor land may not cause as much produce to be raised as ten labourers working on more fertile soil. Unless, therefore, the agricultural labourers receive less wages, the cost of agricultural labour must increase; or, in other words, the rate of profit obtained from farming must decline as it gradually becomes necessary to resort to less fertile land. Let us apply these conclusions to explain some of those points in which the present economical condition of Australia contrasts so strongly with that of England. In enunciating Ricardo's theory of Rent, it has been shown that, in each country, the poorest land cultivated can only pay a nominal rent. The present population of Australia is comparatively small, and her tracts of uncultivated fertile land are almost of boundless extent. The worst land which is cultivated in Australia is far more fertile than the worst land cultivated in England. Hence, agricultural labour, being applied to a more productive soil, is far more efficient in Australia than in England. The same amount of labour which is employed upon the poorest farms in England would, if applied to any land which is cultivated in Australia, cause a great deal more produce to be raised. Hence, in consequence of the increased efficiency which is thus given to agricultural labour in Australia, the wages of agricultural labourers may be

Cost of labour in Australia and England.

much higher in Australia than in England, and yet the cost of this labour in Australia may be less than it is in England. But if the cost of labour is diminished, the principle just enunciated shows that the rate of profit must be increased; and such a conclusion is amply verified in the case of Australia. Wages are far higher there than in England, and profits are also higher.

There may appear to be a difficulty connected with the explanation just given; for it may be said, the agricultural labour which is applied to some of England's most productive soils yields more than the same quantity of labour applied to even the best land in Australia. It may, therefore, be thought incorrect to say that agricultural labour is less productive in England than in Australia, since it would seem that only that portion of our agricultural labour is less productive which is employed upon our least fertile soils. This ambiguity must be cleared up; for it can be shown, that the cost of agricultural labour is determined by the cost of that labour which is employed upon the least productive land in cultivation. Rent may be regarded as a sum which the farmer pays for the permission to employ labour upon productive land. The more productive the land, the higher, of course, is the rent; or, in other words, the more favourable the circumstances under which agricultural labour is applied, the greater is the sum which has to be paid as rent. Although agricultural labour employed on a fertile soil is more efficient, yet the farmer obtains no advantage from the cost of this labour being diminished; for what he would thus gain he has to pay away in rent. His profits, therefore, would not be diminished by an increase in the cost of labour, provided that there was a corresponding reduction in his rent. The profits which are derived from agriculture approximate to an equality; it is still correct to say, even with regard to agriculture, that the rate of profit is determined by the cost of labour, if it is remembered that in this case the cost of labour is not entirely composed of wages, but also consists of rent, since rent may be regarded as a premium paid when agricultural labour is assisted by a fertile soil. Considered in this light, therefore, the cost of agricultural labour may be regarded as uniform

The cost of agricultural labour is measured by its cost when applied to the least fertile soils in cultivation.

throughout the same country. But in the case in which the worst land cultivated is so poor that only a nominal rent is paid, then rent can no longer be regarded as an element of the cost of agricultural labour. Hence the proposition above enunciated is proved: namely, that the general cost of agricultural labour is determined by the cost of that labour which is employed upon the least productive land in cultivation. If, therefore, food cannot be supplied to an advancing population without continually resorting to less productive land, then one of two consequences must inevitably ensue: either the cost of agricultural labour will increase, and then a decline in the rate of profit will follow; or, if the cost of this labour does not increase, the labourers must receive lower wages; for when labour is applied to less productive land, an increase in the cost of this labour can alone be prevented by paying the labourers lower wages.

Variation in the cost of labour in different countries.

Enough has now been said to establish the proposition, that the rate of profit depends upon the cost of labour. If, therefore, the rate of profit is higher in one country than in another, it must be because the cost of labour is greater in one country than in the other. Let us enquire into the causes which regulate the cost of labour. If capital increases, without any increase in the number of the labouring population, it is manifest that there is a larger sum to be distributed amongst them; wages will rise, and consequently the cost of labour will increase, and the rate of profit will diminish. If population increases, and capital remains stationary, wages will fall, the cost of labour will be diminished, and the rate of profit will advance. Hence it appears that not only the average remuneration of the labourers, but also the rate of profit, is primarily determined by the ratio between the capital of the country and the number of its labouring population. This, however, is not a complete explanation, for it would seem to indicate that the rate of profit is higher when wages are low; facts contradict this, for in Australia wages and profits are both higher than they are in England. But the difficulty arises from confusing wages with cost of labour; wages may be very low, and yet the labour be so inefficient, from causes previously explained, that the cost of labour

Cost of labour not to be confounded with wages.

may be extremely high. The English contractors who made the French railways could have engaged any number of French labourers, at one half the wages that were paid to English navvies; but so superior is the physical strength of an Englishman, that it was proved that one English navvy would do as much work as two French labourers. In this case, therefore, the cost of French labour would be as great as the cost of English labour, although the wages of the English labourer were twice as great as those paid in France. Again; high wages do not always denote that a large remuneration is received by the labourer. Wages may be high, and food so dear, that a labourer is far better off in a country where wages may not be so high, but food cheaper. Hence labourers may be comparatively speaking impoverished, in consequence of the dearness of food, although their wages are high; in such a case the cost of labour would be great, and the result would be a low rate of profit, accompanied with the impoverishment of the labouring class. Such is the result which has to be feared in a country whose increasing population makes food dearer. The supplies of cheap food which have been imported into England since the introduction of free trade have exerted an important influence in sustaining the rate of profit.

After the remarks which have now been made in reference to cost of labour, the reader will be able to appreciate the admirable analysis of Mr. Mill, when he says that 'Cost of labour, and therefore the rate of profit, is a function of three variables:'

Cost of labour and rate of profit a function of three variables:

1. 'The efficiency of labour.'
2. 'The wages of labour' (meaning thereby the real reward of the labourer).
3. 'The greater or less cost at which the articles composing that real reward can be produced or purchased.'

If labour becomes more efficient, whilst the wages of the labourers and the price of food remain unaltered, the cost of labour will be diminished. If the wages of the labourers are reduced, whilst there is no change in the efficiency of labour and the price of food, the cost of labour will again be diminished. The cost of labour will also be diminished if the price of food is reduced,

and the amount of the labourer's wages, estimated by the commodities they will purchase for him, remains unchanged. If, therefore, the cost of labour, or, in other words, the rate of profit, varies in different countries from time to time, the variations must be due to the influence of one or more of the three circumstances above enumerated. The current rate of interest affords a sufficiently sure evidence of the rate of profit. It would be a most useful exercise for the student to trace to which of the three variables is due a high or a low rate of profit, prevailing in any particular country. In order to assist him in such an examination, we will indicate some of the leading causes upon which depend the efficiency of labour, the real wages of the labourer, and the price of food.

first, the efficiency of labour, which especially depends upon the supply of fertile land;

In previous chapters, the causes have been described in detail which determine the productiveness of labour. It need only here be added that nothing more powerfully promotes the efficiency of labour than an abundance of productive land. But an abundant supply of productive land causes food to be cheap, and, under such circumstances, two out of the three causes are brought into operation upon which depend a high rate of profit and a small cost of labour; the influence which is thus produced in increasing the rate of profit, is so great, that in a country like Australia, where there is a large supply of fertile land, profits are high, although a labourer at the same time receives a very large remuneration for his labour.

secondly, the wages of labour, which depend upon the relative increase of population

The second variable, upon which depends the cost of labour—namely, the remuneration received by the labourer—is determined by the ratio which population bears to capital. It would be foreign to our purpose to attempt to describe why some countries are more populous than others. Our colonies and the American continent have not yet had time to be thickly peopled with an European population. In the last chapter allusion was made to the power of man's multiplication, and it was stated that Mr. Malthus's 'Essay on Population' gives a most detailed and interesting analysis of the checks by which, in various countries, population is restrained. In England, whatever may be the other checks which restrain popu-

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lation, there is one which exercises a preponderating influence in determining the variations in the number of our labouring population. It has been satisfactorily proved that the number of marriages varies with the price of food; diminishing as food becomes dear, increasing as food declines in price. A great portion of the advantage which the poor would derive from the cheapening of food is therefore ultimately lost to them, because the increase of population which is stimulated by cheap food has a tendency to lower wages.

and capital. The increase of capital itself depends upon

The causes which influence the accumulation of capital are extremely various. Much depends upon national character; one nation may be far more prudent, and may possess much more foresight than another; the inhabitants of one country may consume, in their own personal enjoyment, almost all the wealth they can obtain, whilst in another country saving is promoted by the most rigid economy. No nation will ever accumulate a large amount of capital for the purpose of applying it to productive purposes, until there is sufficient social order to render property secure. Nothing has so powerfully impeded the industrial progress of India, and retarded the development of her great resources, as the social anarchy which has prevailed there for so many centuries. If England's rule and England's power can make the people of India feel that the rights of private property will be strictly respected, then India will inevitably become a great commercial nation. But independently of any effects produced upon the accumulation of capital by these differences in the character and condition of various nations, it may be observed that the

the rate of profit

accumulation of capital is always influenced by the rate of profit. If, for instance, the current rate of interest should be greatly increased in England, an additional inducement would be offered to every one to save; the result would be strikingly exhibited by a greatly increased accumulation of capital. The amount of wealth, therefore, which is saved in a country is kept, as it were, confined between certain limits by a self-acting agency. For if in any particular year there should be some irregularity which should cause a much larger capital to be saved than is customary, the labourers would, in consequence of this augmentation of capital, receive higher

wages; the cost of their labour would thus be increased, the rate of profit would diminish, and the current rate of interest would fall. In this manner less inducement would be held out for individuals to save, and a force would be created to restore capital to its former amount. Sufficient capital might soon be accumulated in England to reduce the current rate of interest to two per cent. This was the current rate of interest in Holland at the end of the last century; the Dutch at that time were therefore content with two per cent., but the English are not satisfied unless three per cent. can be obtained. The current rate of interest, therefore, to a great extent, depends upon national character; for if the English, as a nation, became more prudent, and more anxious to save, the current rate of interest might rapidly decline to two per cent.

and the national character.

The effect which is produced upon the rate of profit by the last of the three variables, upon which the cost of labour depends, has not generally been sufficiently considered. Suppose an employer pays 1000*l.* in wages, and that his labourers spend the greater portion of these wages in purchasing food. We have ascertained that an agricultural labourer with a family consumes forty per cent. of his wages in purchasing bread; 400*l.* therefore, out of 1000*l.* paid in agricultural wages, is devoted to the purchase of bread*. Suppose, by some cause, such as the introduction of free trade, that the price of bread is reduced one-fourth; a loaf before sold for 1*s.* 4*d.* now only costs 1*s.*; 300*l.* will purchase as much bread as 400*l.* did before the price of bread was reduced. The labourers therefore, who amongst them received 1000*l.* in wages, will now be quite as well off if they only receive 900*l.* Their real wages will remain unchanged, although their nominal wages should be reduced one-tenth. The cost of labour might thus, in consequence of bread being cheapened, be reduced one-tenth, without the condition of the labourer being in the slightest degree deteriorated. But the question may very reasonably be asked, Will the employer be able to appropriate to himself the whole advantage? Is cheap food alone instrumental in increas-

Thirdly, the cost of producing the real wages.

A diminution of this cost will be beneficial both to the employer and labourer.

* The labourer is supposed to earn 10*s.* a week, and to have a wife and two children; the price of bread being 1*s.* the 8 lb. loaf.

therefore, there is no diminution in the national capital, yet as a smaller amount is employed in home industry, the effects that ensue will, in many respects, be analogous to those which would occur if the amount of wealth annually saved were diminished. This is particularly the case with regard to wages, which depending upon the amount of circulating capital must evidently be regulated, not so much by the whole amount of capital annually saved, as by the amount which is retained for home investment. It will be very necessary to bear this in mind when considering the various expedients which are resorted to for raising wages. It may here be generally said that an advance in wages, unaccompanied by any increase in the efficiency or productiveness of labour, can seldom confer a permanent benefit upon the labourer. Such an advance in wages will lower the rate of profit at home; a greater proportion of the national capital will therefore be invested abroad; the circulating capital in the country itself will be diminished; or in other words its wage fund will be decreased.

CHAPTER VI.

PEASANT PROPRIETORS.

Different kinds of landed tenure.

THE reader has already been warned against the conclusion that the present system of landed tenure in England is to be regarded as the type of that which prevails throughout Europe and the other civilised parts of the world. A very considerable portion of the land in England belongs to the large estates of the aristocracy; land is rarely cultivated by its owner. The farms in England are generally large, and are becoming larger; they are almost entirely cultivated by hired labour; and, consequently, the produce of the land has to be distributed amongst landlords, farmers, and labourers. But the condition of England in this respect was, a few centuries since, very different. No class of men in our early annals occupied a more prominent or honourable position than the yeomanry. Their praises have been sung by our greatest poets; their sturdy independence on many occasions preserved the liberty, and proved the courage, of the English race. The tenant farmers of the present day differ essentially from the old yeomen of England, who were freeholders, cultivating the land which they owned. Their holdings were generally much smaller than those of the present day. In many continental countries, such as France, Norway, Switzerland, Italy, Belgium, Prussia, and some of the German states, much of the land is still possessed by small proprietors, termed peasant proprietors, who cultivate the land which they own. A peasant proprietor frequently cultivates his farm entirely by the labour of himself and his family. In this case, land, labour,

Peasant proprietors.

Differences of opinion as to the advantages of peasant proprietorship.

and capital are all supplied by the same individual; he therefore claims the whole produce of the land; and rent, wages, and profits are merged together. The question as to the comparative advantages and disadvantages of cultivating the land by peasant proprietors has been, perhaps, more keenly discussed by political economists than any other subject. On the Continent, not only political economists, but practical farmers, are decidedly favourable to peasant proprietorships; they can of course watch the system in actual working, and are therefore in a much better position to judge of its effects than we who have now no opportunity of observing any considerable tract of land in England cultivated by peasant proprietors. English opinion is so strongly in favour of large farming, that we may naturally expect to find that our countrymen almost invariably express themselves antagonistic to a system of peasant properties, which implies small farming. Amongst English political economists the two most prominent champions of the system are Mr. Mill and Mr. W. T. Thornton. Both of these writers have collected a great mass of facts bearing upon the subject, and have discussed these facts with the most perfect impartiality. Much of the opposition which has been expressed by English writers towards peasant proprietors is undoubtedly due to a radical misconception. Peasant proprietorships imply small farms, but a small farm cultivated by its owner differs essentially from a small farm either occupied by a tenant at will or rented upon a lease; we believe that the whole advantage which can be attributed to peasant properties is almost entirely due to the fact that the cultivator owns the soil which he tills. The well-known Arthur Young, whose preference in favour of large farming was most decided, has very happily said, 'Give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert.'

The advantage possessed by large farming over small farming does not ? that

In a previous chapter, various reasons have been stated which lead to the conclusion, that large farms are more productive than small farms, when land is cultivated not by its owner, but by a tenant*. This opinion is corroborated by the facts of every-day experience; for there can

* See Book I., Chap. VI.

large landed properties are better than small.

be no doubt that the size of farms in England is increasing, rather than diminishing; and the advantage of large farms is sure to be more prominently shown, as machinery of an expensive character becomes extensively used in agriculture. It cannot be supposed that small farms are being absorbed into larger ones, simply in consequence of the caprice of landlords; the absorption takes place, because tenants and landlords have alike learnt that a higher rent can be paid for a farm of six hundred acres, than for the same land divided into two farms of three hundred acres. But, although it can be proved that large farming is more productive than small farming, yet such a conclusion does not definitely decide whether or not a nation is benefited by a class of peasant proprietors; for it has been already stated, that there is a fundamental distinction between a peasant proprietor and a small tenant farmer. Now we believe that very great social advantages are derived from peasant proprietorships; but before enquiring into this particular branch of the subject, the economical effects resulting from the cultivation of land by peasant proprietors will be described. The question is in fact reduced to this—To what extent are the disadvantages which are associated with small farming compensated by the advantages which arise from the cultivator feeling that the land is his own? We will first make some general remarks on the subject, and then substantiate our opinions by well-authenticated facts.

Inconveniences of small farming, which are also applicable to peasant proprietorships.

Many of the inconveniences which belong to farming on a small scale, exert a similar influence when an equally small farm is cultivated by a peasant proprietor. The want of proper machinery and implements is the most formidable difficulty with which small farming has to contend; and it may be observed, in England, that the implements and stock of small farms are generally of an inferior kind. A small farmer has not sufficient capital promptly to take advantage of improved implements, and it often would not answer his purpose to make a considerable outlay in purchasing a new machine, considering the little work it would have to do on a small farm. The expenses of a small farm are comparatively much greater than those of a large one; a flock of six hundred sheep would probably require only one shepherd, but six separate

flocks of a hundred sheep would each require a shepherd. A similar consideration applies to much of the other labour which is employed upon a farm; a farmer is obliged to spend the same time in going to a fair or market, whether he has 50*l.* worth of stock or corn, or whether he has 500*l.* worth to dispose of. Farmers appreciate this, for it is proverbially said that small farms cannot compete with large ones, because the profits of a small farm are eaten up by expenses. A small farmer in England is generally occupied, partly in labouring himself, and partly in superintending the labour of others. Frequently he is efficient neither as a labourer nor as an overlooker of labour; and the want of industry in our small farmers has been often remarked. It must, however, be borne in mind, that both the large and small tenant farmer have no adequate interest in improving the land; for if capital is spent by a tenant farmer in improvements, the landlord, at the expiration of the lease, may appropriate the whole advantage to himself by raising the rent. There are, moreover, improvements of a more difficult and delicate kind, which, it appears, will never be carried out unless the cultivator is stimulated to the most watchful and untiring industry, by the feeling that the land which he improves is his own property. The testimony of Arthur Young on this point is very valuable:—'Leaving Sauve,' says he, 'I was much struck with a large tract of land, seemingly nothing but huge rocks, yet most of it enclosed and planted with the most industrious attention. Every man has an olive, a mulberry, an almond, or a peach-tree, and vines scattered among them; so that the whole ground is covered with the oddest mixture of these plants and bulging rocks that can be conceived. The inhabitants of this village deserve encouragement for their industry, and if I were a French minister they should have it. They would soon turn all the deserts around them into gardens. Such a knot of active husbandmen, who turn their rocks into scenes of fertility (*because, I suppose, their own*), would do the same by the wastes, if animated by the same omnipotent principle.' Again, 'Walk to Rosendal (near Dunkirk), where M. le Brun has an improvement on the Dunes, which he very obligingly showed me. Between the town and that place is a great number of neat little

How these inconveniences are compensated in the last case.

The magic of property.

houses, built each with its garden and one or two fields enclosed, of most wretched blowing dune sand, naturally as white as snow, but improved by industry. *The magic of property* turns sand into gold.'

Evidence in favour of small properties derived from the state of Flanders.

Flanders affords the most striking example of the influence produced by what Arthur Young so aptly terms 'the magic of property.' The farming both in East and West Flanders has long been celebrated; it is unsurpassed in Europe; for as Mr. M'Culloch says, 'Its natural soil consists almost wholly of barren sand, and its great fertility is entirely the result of very skilful management and judicious application of various manures.' Such a tract of land, if owned by a landed aristocracy, would have remained a barren waste. It would be worthless to be rented by a tenant, and no labour which a landlord could have hired would have bestowed that unwearied and intelligent industry which has converted barrenness into luxurious fertility. This will become evident when we know the agency by which these improvements have been effected. It has been frequently remarked by those who have travelled through Flanders, that the Flemish agriculturists want nothing but space to work upon. Whatever the quality of the soil may be, in time they will make it produce something. The sand in Campine is like the sands on the seashore, of which they originally were a part; and here you see a cottage and rude cowshed erected on a most unpromising spot. The loose sand is held together in little mounds by the roots of the heath. A small spot being selected, is surrounded by a ditch and levelled; it is then planted partly with broom and potatoes, and perhaps a small patch of diminutive clover, and manures both solid and liquid are collected. This is the nucleus from which, in a few years, a little farm will spread around. The only thing that will grow on this sand without manure is broom, and this will be sown if no manure can be got, and will in three years be fit to cut, when it is sold to bakers or brickmakers. The leaves falling enrich the soil, and the roots give it a compactness; it may now be sown with buckwheat or rye without manure. When this is reaped, some manure may have been obtained, and a course of cropping may begin. With the aid of clover and potatoes, a farmer may keep cows and make

Cultivation of sand-dunes.

manure; the improvement will be so rapid, that in a few years the soil will become as mellow, retentive of moisture, and enriched by manure and the decomposition of vegetable matter, as soil which was originally good; and the crops produced by both soils will be more nearly alike at harvest, than is the case in soils of different qualities in other countries. The people who have achieved these great results in agriculture are principally peasant proprietors, and they labour so earnestly and so intelligently because the ground they till is their own. The Flemings, at a time when English agriculture was in a most backward condition, followed a most approved system of rotation of crops. The English farmer is generally a better educated man than these small Fleming proprietors. He has money at his command, a far larger capital than they have, and therefore he is able to purchase superior implements; but a competent authority has observed, 'that in the minute attention to the qualities of the soil, in the management and application of manures of different kinds, in the judicious succession of crops, and especially in the economy of land, so that every part of it shall be in a constant state of production, we have still something to learn from the Flemings, and not from an instructed and enterprising Fleming here and there, but from the general practice*.'

Goodness of Flemish farming.

Authorities seem unanimously to agree upon the great industry evinced by peasant proprietors, and thus peasant proprietors would appear essentially to differ from small farmers who rent the land they cultivate; for indolence is generally assigned as the fault of this latter class. Mr. Inglis was forcibly impressed with the wonderful industry of the peasant proprietors of Zürich. Mr. Laing, a traveller who, with singular acuteness, has observed the economy of various European countries, remarks, when speaking of Norway, the country where peasant proprietors are most numerous, and of longest standing in proportion to the population, 'if small proprietors are not good farmers, it is not from the same cause here which we are told makes them so in Scotland—indolence and want of exertion. The extent to which irrigation is

Evidence to the same effect from Zürich,

Norway,

* See an article on Flemish Husbandry in the Farmers' Series of the Society for the Diffusion of Useful Knowledge.

carried on, in these glens and valleys, shows a spirit of exertion and *cooperation* to which the latter can show nothing similar.' Once more we will quote Arthur Young, who has most happily expressed the effect which the feeling of property exerts in stimulating industry. Although Arthur Young often found great fault with the agriculture which he observed on some of the small properties in France, yet he remarks that what he saw in France 'proved that property in land is, of all others, the most active instigator to severe and incessant labour. And this truth is of such force and extent, that I know of no way so sure of carrying tillage to a mountain-top, as by permitting the adjoining villagers to acquire it in property; in fact, we see that in the mountains of Languedoc they have conveyed earth in baskets on their backs, to form a soil where nature had denied it.' It has been often urged as an objection against small properties in land, that there are many important improvements which can only be carried out by a cooperation of labour and by a combination of resources, which, it is supposed, would not exist among small proprietors. For instance, it may be impossible to drain one isolated field, if those around it remained undrained; an outlet must be found for the water, and in this way the interests of an adjoining property might be affected. Again, in many countries the fertility, and consequently the value, of the land depends on irrigation. Any one who is acquainted with those works of irrigation which have converted many of our English valleys from almost useless swamps into the richest meadow-land, will no doubt have observed, that the most expensive of these works are not constructed for any particular field, but serve a large tract of country. Therefore it might be supposed that irrigation would never be attempted, if it were necessary to consult the conflicting interests of a great number of small proprietors. Such a supposition is completely met by the testimony of Mr. Laing with regard to Norway, who assures us that, in many districts entirely occupied by peasant proprietors, irrigation is carried out to its fullest possible extent. Mr Laing emphatically speaks, not only of the industry, but also of the *cooperation* of labour, shown by the Norwegian peasant proprietors in irrigating their land.

and France.

Certain objections to peasant proprietorship are obviated by the cooperation of labour as shown by the Norwegian peasants.

BOOK II. CH. VI.

Is the nett produce greater on small properties, as well as the gross?

English writers, whilst allowing that a small proprietor may cultivate his land with great care, have almost invariably assumed that this kind of cultivation is more suited to a garden than a farm, and hence it is frequently stated that farming by peasant proprietors is much more expensive than farming on a large scale. The gross produce from small properties may be greater, but the nett produce, it is said, cannot be. Some continental agriculturists have, however, enquired into this subject with great care, and their conclusions are worthy of attentive consideration. Amongst a great number of German writers whose opinions upon this subject coincide, we select Albrecht Thaer, a writer on the different systems of agriculture, and who had, in some of his earlier works, expressed himself very decidedly in favour of large properties divided into large farms. He says he is convinced 'that the nett produce of land is greater, when farmed by small proprietors, than when farmed by great proprietors or their tenants.' Mr. Kay, a most intelligent English writer, also affirms this. 'The peasant farming of Prussia, Saxony, Holland, and Switzerland, is the most perfect and economical farming I have ever witnessed in any country.' But if the nett produce of land is increased when occupied by small proprietors, a large estate ought, of course, to be more valuable if it were divided amongst several small proprietors. Upon this point, we obtained from M. Reichensperger some most valuable information, based upon personal observation, and upon the most accurate statistical facts. He expresses a very decided opinion, not only that the gross produce of any given number of acres held and cultivated by small or peasant proprietors, is greater than the gross produce of an equal number of acres held by a few great proprietors, and cultivated by tenant farmers; but that the nett produce of the former, after deducting all the expenses of cultivation, is also greater than the nett produce of the latter. He mentions facts which seem to prove that the fertility of the land, in countries where properties are small, must be rapidly increasing, and substantiates this opinion by proving that the price of the land which is divided into small properties in the Prussian Rhine provinces is much higher, and has been rising much more rapidly, than the price of

Evidence of A. Thaer,

Mr. Kay,

and M. Reichensperger.

Rapid increase of the value of small properties.

land on the great estates. This is the most conclusive testimony which can be given in favour of small landed properties; it is in fact a practical and complete solution of the question, for upon this subject abstract reasoning will have little effect in convincing the great bulk of mankind. Even if a very strong case can be made out in favour of small properties, it will not convince a people like the English, who are accustomed to a different system; they will naturally say—If small properties are more advantageous, an estate if divided would realise a larger price; and therefore a large estate, whenever it was sold, would inevitably be partitioned into a great number of small properties. The reverse of this, however, has taken place in England; estates have not been more subdivided, for it is well known that within the last few years, in almost every district, a great number of small properties have gradually been absorbed, and combined into large estates; this apparently affords very strong evidence that small properties are not in England economically advantageous.

Experience of England.

It is often erroneously imagined, that if a political economist describes the advantages which are conferred upon a nation by the existence of a class of peasant proprietors, he must therefore be anxious to introduce small properties into a country like our own by some compulsory measures. But those who are the most intelligent advocates of peasant properties desire no more than that legislation should not foster one system of landed tenure more than another. If the law of a country gives no artificial encouragement to any particular form of landed tenure, then the development of any system would be spontaneous, and would prove its economical advantage. In England, many circumstances combine, not only to prevent the partition of large into small properties, but also to encourage the rapid absorption of the small properties, which were so numerous in former times. The influence thus exerted to encourage the aggregation of land is partly due to our law of real property; partly to customs which this law fosters; and also partly to causes which may be described as natural and whose operation cannot therefore be directly controlled. Taking these three different classes of circumstances in order, it

The principal legal obstacles to the introduction of peasant proprietors into England are

The law of primogeniture,

may be sufficient here to state that the legal influence referred to, arises from the law of primogeniture, from the power of entail, and from a system of conveying landed property which is costly and cumbrous. It is no doubt often truly said that in England primogeniture is maintained much more by custom than by law. No one is compelled to leave his land to his eldest son; and the only occasion in which the eldest son is necessarily preferred to the younger children is in the case of intestacy. When it is remembered that few people die without a will, it is often argued that the law of intestacy, with regard to real property, produces but a very slight effect. It is, however, impossible to say to what an extent the custom of primogeniture, which so generally prevails in England, is encouraged by this law. When a man dies without a will, it is only fair to conclude that such a disposition is made of his property as the State deems to be most strictly just. The law of England, therefore, virtually affirms that in the case of personal property all the children of a family shall be treated alike; but with regard to real property the extraordinary doctrine is laid down, that it is just that the eldest son to the exclusion of his brothers and sisters should inherit all the land possessed by his father. To prefer one child before all the rest is so contrary to the instincts of human nature that the custom of primogeniture could not be maintained unless some collateral advantages were associated with it, or unless the custom derived some such sanction as is given to it by the law of this country. In feudal times there were collateral advantages associated with primogeniture, because it was necessary to keep landed estates intact for purposes of protection. But now that property is secure the unnatural institution of primogeniture has no defence except that which it derives from the sanction conferred upon it by our law of intestacy.

The power of entail,

But great as is the influence which is exerted upon the aggregation of land in England by the law and custom of primogeniture, the effect produced by the power of entail is probably still greater. Our law enables land to be settled upon any number of lives in being, and upon the unborn child of the survivor. Directly such a settlement is made, it is impossible to sell the estate affected

by it, until that long period has elapsed when the unborn child of the survivor shall have attained his majority. There can be no doubt that by far the greater part of the whole land of this country is thus settled. Consequently only the remaining portion can be regarded as a marketable commodity. The direct result of this is that so far as the selling of land is concerned its supply is artificially restricted. A powerful monopoly is in fact constantly in operation, and consequently in this country land obtains a monopoly price.

And our cumbrous system of conveyancing.

The acquisition of small properties in land is also impeded by our cumbrous system of conveyancing. There is not any great difference between the cost of conveying a small and a large estate. It is therefore manifest that a heavy penalty is imposed upon the subdivision of land when the expense of conveying a small plot of ground represents no inconsiderable portion of its price.

There are also social and political obstacles to the introduction of peasant proprietors into England.

Beside these causes which are connected with laws that can be at once repealed or modified, the aggregation of land is promoted by other circumstances which cannot be so directly controlled. Thus in a country which is advancing in wealth and population the number of people who are able and anxious to purchase land is constantly increasing. The possession of land confers social position and political influence. If a man owns a large estate he is certain to be made a deputy lieutenant and probably high sheriff of his county; these social distinctions are highly valued. The possession of land enables a man to enjoy the pleasures of a country life. There are consequently many collateral advantages associated with the ownership of land; which in a country such as our own, are each year increasing in value. The price which is paid for landed property is therefore composed of two elements. The one represents the agricultural value of the land and may be estimated by the rent annually yielded. The other element represents the pecuniary value of those collateral advantages associated with land, which have just been alluded to. It is manifest that if this last element constitutes any considerable portion of the whole value of the land, a man cannot afford to become the purchaser of land who desires to cultivate it for profit. It has been previously stated that in a

thickly peopled country such as England, the difference between the market value and the agricultural value of land steadily increases; hence each year a smaller area of our land will be cultivated by those who own it. This tendency to separate the cultivation from the ownership of the soil is, as previously explained, greatly intensified by various laws, such as the law of primogeniture and entail. It therefore becomes of particular importance as far as possible to remove all the encouragement, thus artificially given, to promote the aggregation of land. The opinions of the highest authorities on agriculture, such as Arthur Young and others, have been quoted to show that the feeling of ownership exerts by far the most powerful influence that can be brought into operation to secure the most efficient cultivation of land. The same opinion has been strongly expressed by Adam Smith and by almost every other distinguished political economist who has written since his time.

Social effects of the English system.

After having pointed out some of the economic disadvantages associated with the aggregation of land, it will be important to enquire whether there are any counterbalancing advantages resulting from our existing system of landed tenure. Even those who are most decided in their opinions as to the productiveness of England's industry, must feel that the condition of those who are employed in agriculture is most unsatisfactory; for there are few classes of workmen who, in many respects, are so thoroughly wretched as the English agricultural labourers.

Extreme poverty of English labourers.

They are so miserably poor, that if they were converted into slaves to-morrow, it would be for the interest of their owners to feed them far better than they are fed at the present time. In all those localities which are at a considerable distance from the manufacturing districts, ten shillings a week may be regarded as the maximum of agricultural wages during the winter months. A moment's consideration will show, that such wages are barely sufficient to supply the first necessaries of life. Meat cannot be tasted more than once a week, and those who have to exist on this scanty fare are more exposed than any others to the inclemency of our trying climate. Such wages will not permit the slightest provision to be made, either for sickness, or the feebleness of old age. Throughout a

large agricultural district with which I am intimately acquainted, I know that the great majority of the agricultural labourers have not saved a single penny; to them a life of toiling and incessant industry can offer no other prospect than a miserable old age; for when they are too old to labour they will either be paupers in the workhouse, or they must come, as suppliant mendicants, for parish relief. But even the physical suffering which is associated with their poverty is not the worst feature of their condition; their ignorance is as complete as it is distressing. Improved schools, enormous educational grants, and a general zeal for instructing the poor, have failed to educate the agricultural labourers. The reason of the failure is obvious. When children leave school at eight or nine years of age, to become ploughboys, the little that has been learnt is sure to be forgotten; and the consequence is, that in many large agricultural villages there is not one young man who can read sufficiently well to understand a newspaper. Parents may be accused of neglecting their children's welfare; but how can we expect those who are so miserably poor, and who are ignorant themselves, and know not the value of knowledge, to sacrifice the two shillings a week that a child of eight or nine years of age may readily earn? Other countries, no doubt, possess labourers who are equally poor, and equally ignorant; but the poverty and the ignorance is heightened, when contrasted with the accumulated wealth and the vaunted civilisation with which it is surrounded. We make these remarks in order to show, that even if the system of landed tenure in this country is productive of wealth, yet that the distribution of this wealth is so unsatisfactory, that those whose labour is instrumental in producing it are miserably poor, and their life in every respect most unenviable. They have, in fact, to work with the regularity of machines, without hope that their condition will be improved.

This extreme poverty produces extreme ignorance.

Let us now enquire whether the condition of an agricultural community is more desirable when the land is owned and cultivated by peasant proprietors. Before quoting any special instances, it may be mentioned that the condition of a man who can enjoy the entire fruits

Social effects of peasant proprietorship.

of his own labour is in every respect superior to the condition of one who is simply a hired labourer, and who, consequently, has no direct interest in the work upon which he is employed. The faculties of the latter are never fully stimulated, his hopes are not excited by success, his energies are not called forth to contend with the difficulties and disasters to which every employment is liable; his life is, in fact, one of dull routine. It may be said that he is spared many anxieties, with which the labourer who is his own master has to contend. But it is almost a truism to assert, that these cares and anxieties are the most valuable instruments of education, and that without them the human faculties can never be adequately developed. These general observations may be corroborated by actual experience, at least in the case of an agricultural community. All writers on peasant proprietors bear the most decided testimony to their incessant and intelligent industry. In Switzerland, France, Flanders, and the Rhine-land, we are told that the small proprietors, who cultivate their own land, economise their time with the most scrupulous care; they earnestly strive to turn every half hour to the utmost possible advantage; they work early and late, and their labour exhibits a watchfulness, and a fostering attention, which is never acquired by hired labourers; magical is the influence which the feeling of property exerts, and truly indeed has it been said by Arthur Young, that it is potent enough to turn sand into gold, and convert a desert into a garden. So great is the industry of peasant proprietors, that some writers have alleged, that they are too industrious; that they are, in fact, too much engrossed in the business of life. But it is with reference to the prudential virtues, that they offer the most striking contrast to our hired labourers. The worst paid workmen in this country are so thoroughly reckless, that they seldom show any foresight for the future; and many, consequently, who are impressed with this fact, have maintained, that higher wages effect no permanent improvement in the condition of the poor. They do not save their increased earnings, but they either marry with increased recklessness and improvidence, or spend more money in drink. Improved education would no doubt powerfully tend to correct these faults, for an almost en-

Industry of labourers.

Their prudential virtues,

which even in excess are preferable to English recklessness.

tire absence of prudence is one of the most certain effects of ignorance. The life of a hired labourer can exert no influence whatever towards cultivating prudential habits. His poverty is so great, that he, when he has the means, naturally indulges in somewhat better living; and even if he should, by dint of great sacrifice and exertion, accumulate a trifling amount of money, he very seldom has any eligible opportunity of investing these savings. No definite prospect is held out to him, that his savings will ever enable him to occupy a different social position. If a hired labourer saves twenty pounds, he has no chance of investing it as capital in some profitable employment; the only purpose to which he can devote it, is to place it in the savings bank, where he can obtain something below the current rate of interest. How much more powerfully will prudence be stimulated, if a definite prospect is held out, that a labourer might in the course of time, by means of saving, acquire a small landed property! The value of such an acquisition to the labourer is not to be estimated by the amount of wealth with which it enriches him. It makes him, in fact, a different man; it raises him from the position of a labourer, and calls forth all those active qualities of mind which are sure to be exerted when a man has the consciousness that he is working on his own account.

Evidence to prove the thriftiness of peasant proprietors.

These remarks are corroborated by the unanimous testimony of the most competent authorities; for it has been repeatedly affirmed, that peasant proprietors are invariably a most thrifty class, and so anxious are they to accumulate capital, that the style of their living has often been erroneously supposed to denote poverty, when it is simply a result of great economy. The advantage to be derived from saving is brought most distinctly home to them. A small proprietor knows, that if he can save a few pounds, he will be able to have another horse or cow, or perhaps some new implement, and he is able clearly to foresee the profit which he will derive from such a purchase. Let a man once feel how efficient the wealth which he saves may become in producing more wealth, and he is sure in future to exert himself actively to accumulate capital. Mr. Browne, who was a few years since the English consul at Copenhagen, has made some most interesting observa-

Denmark.

tions with reference to the peasant proprietors of Denmark. He bears the most decided testimony to their thrift, and also to the superior comfort in which they live. Thus, he says, 'The first thing a Dane does with his savings is to purchase a clock, then a horse and cow, which he hires out, and which pay a good interest. Then his ambition is to become a petty proprietor, and this class of persons is better off than any in Denmark. Indeed, I know of no people, in any country, who have more easily within their reach all that is really necessary for life, than this class, which is very large in comparison with that of labourers.'

Mr. Jones's assertion that peasant proprietorship over stimulates population.

A system of small landed properties has sometimes been condemned, because it is supposed to encourage a reckless increase of population. Upon this point the late Mr. Richard Jones was most strong in his denunciation; but although this political economist collected many most valuable facts, yet he was prone to make unsupported statements, and often called upon his readers to reject a theory, or to assent to some particular opinion, upon his own unsupported assertion. Mr. Jones says that the peasant proprietors are 'exactly in the condition in which the animal disposition to increase their numbers is checked by the fewest of those balancing motives and desires which regulate the increase of superior ranks, or more civilised people.' But he gives no reason for this opinion, nor does he attempt to support it by specific facts. Many other writers besides Mr. Jones have maintained that small landed proprietors must become gradually impoverished, in consequence of the continued division of the land amongst the children of each generation. It is not unfrequently assumed, that a man will marry directly he acquires a small landed property, a large family will have to be maintained, and that the father will be able, at his death, to make little or no provision for his numerous children, unless he either divides the land which he owns amongst them, or else leaves the land to one of his children heavily encumbered with annuities, to be paid to the rest. In order to disprove such suppositions, we will in the first place show that all *à priori* reasons would lead us to conclude that the acquisition of property will act more powerfully than any other circumstance to

make a class prudent with regard to marriage; we shall, in the second place, adduce specific facts bearing upon the slow rate of the increase of population amongst peasant proprietors.

Improbability of this statement. Analogy of our upper classes.

The most casual observer must have remarked that the poorest classes in this country show the greatest imprudence with regard to marriage. As a general rule, a man does not marry, in the middle and upper classes, unless he believes that he shall, at any rate, be able to give his children as good an education as he has himself received, and be also able to place them in a social position similar to that which he himself occupies. The majority of men are accustomed to some particular style of living, and they generally refrain from marriage, if the increased expenses of married life would compel them to live in a manner which would not give them, what has been aptly termed, 'their habitual standard of comfort.' But the very poor are not influenced by any such considerations—they are not restrained from marriage by a desire to preserve a certain standard of comfort. What standard of comfort could the miserable cottiers of Ireland have had? Those who are accustomed to poverty do not attempt to exercise any restraint with regard to marriage; and amongst such persons, population is only restrained by the great mortality which prevails amongst the very poor, and more especially amongst their children. But when a labourer becomes a small landed proprietor he is at once influenced by the same motives which render the middle and upper classes prudent with regard to marriage. A person in the middle classes appreciates the value of the position he occupies; and he will not marry, if marriage will so impoverish him as to render it necessary for him to resign his position. A small landed proprietor must be quite as forcibly convinced of the superiority of his own position compared with that of a hired labourer; and he will be equally careful not to marry, if he considers that the expenses of a family would force him to give up this position, and would compel him to sell his land, and return to the ranks of the ordinary labourer. There is, moreover, abundant evidence to prove that peasant proprietors are acted upon by these motives. Sismondi, perhaps more than any other writer, has been impressed with the evils

Direct evidence.

Sismondi's opinion.

which result to the poor from over-population, consequent on imprudent marriages; and his strong advocacy of peasant-properties is principally based upon the conviction that the system acts powerfully to restrain population. His testimony with regard to France is extremely important, because in France the system of peasant proprietorship is put to the most severe test, by the operation of the law which forces the equal division of landed property. Sismondi says, 'There is no danger lest the proprietor should bring up his children to make beggars of them. He knows exactly what inheritance he has to leave them; he knows that the law will divide it equally amongst them; he sees the limit beyond which this division would make them descend from the rank which he has himself filled, and a just family pride, common to the peasant and to the nobleman, makes him abstain from summoning into life children for whom he cannot properly provide.'

Mr. Kay's account of Switzerland.

Mr. Kay, who may always be relied upon as a most accurate observer, shows that the prospect of acquiring landed property makes not only those who are engaged in agriculture prudent with regard to marriage, but also exerts the same influence upon the labourers who are employed in the adjacent towns. Speaking of Switzerland, he says, 'In some parts, as in the canton of Argovie, for instance, a peasant never marries before he attains the age of twenty-five years, and generally much later in life; and in that canton the women very seldom marry before they have attained the age of thirty. Nor do the division of land, and the cheapness of the mode of conveying it from one man to another, encourage the providence of the labourers of the rural districts only. They act in the same manner, though perhaps in a less degree, upon the labourers of the smaller towns. In the smaller provincial towns, it is customary for a labourer to own a small plot of ground, outside the town. This plot he cultivates in the evenings, as his kitchen-garden. He raises in it vegetables and fruit for the use of his family during the winter. After his day's work is over, he and his family repair to the garden for a short time, which they spend in planting, sowing, weeding, or preparing for sowing a harvest, according to the season. The desire to become possessed of

one of these gardens operates very strongly in strengthening prudential habits, and in restraining improvident marriages. Some of the manufacturers in the canton of Argovie told me that a townsman was seldom contented until he had bought a garden, or a garden and house, and that the town labourers generally deferred their marriages for some years, in order to save enough to purchase either one or both of these luxuries.' Mr. Kay also proves, by the most precise statistical facts, that the peasant proprietors of the Prussian Rhine-land are extremely provident with regard to marriage, the ordinary age at which people there marry varying between twenty-five and thirty years. Numerous other facts might be adduced, to prove that a system of cultivation by peasant-proprietors is in every respect most satisfactory in its social consequences.

Effects of our own system contrasted with that of peasant proprietors.

In contrast with these results, the effects of our own system of landed tenure may be correctly characterised in the following manner. The land is owned by comparatively few great landlords; it is occupied by tenants who have sufficient capital to cultivate large farms, and the labour is supplied by hired labourers, whose wretchedness is proverbial, and between whom and their employers there is none of that personal sympathy which can alone be secured by the feelings of common pecuniary interest. When the soil of a country is owned and cultivated by peasant proprietors, the efficiency of production is not interfered with; and we believe it has been shown that the social and material condition of peasant proprietors is most satisfactory. Our own history, at least, proves that this class, formerly represented in this country by the ancient yeomanry, has ever been distinguished for its independence and its patriotism.

It would not be desirable to create small landed proprietors by compulsory legislation.

Whenever the system of peasant properties is advocated it is important to state in the most explicit manner, that it would not be desirable to create small landed properties by compulsory legislation. Some people are never tired of repeating the misrepresentation that all who are dissatisfied with the English system of landed tenure, are anxious to substitute for it the French law of compulsory subdivision of land. The objection to this law is similar to that which has been urged against our own law of real property. Neither the aggregation of land nor its sub-

division ought to be enforced by legislation. If things were allowed to take their natural course, experience would soon prove which system of landed tenure was the most beneficial to different countries.

The advantages of large and small farming may be combined.

It has already been stated that in growing corn and some other products, large farming will become comparatively more advantageous than small farming, as machinery is more extensively used in agriculture. In order therefore to combine the peculiar advantages associated with large farming with those resulting from peasant properties, it may be anticipated that, in future, land will often be owned and cultivated by associations of labourers. The practicability of forming such associations will be shown in the chapter which describes the progress of cooperative societies.

An event has lately occurred in Europe which will extend upon a vast scale the system of peasant properties. Until the great act of emancipation was carried out by the present emperor of Russia, all the land in that country was cultivated by serfs. These serfs were supposed to number about 22,000,000; their condition had for ages been that of semi-slavery. Each serf generally occupied a small portion of land; and instead of paying the proprietor of the soil any rent, the serf was bound to give him a certain proportion of his labour, and to render him various other services. As long as the serf fulfilled his obligations, he had a claim to the plot of ground which he was accustomed to cultivate. The landed proprietor was, however, permitted to exercise upon the serfs much of the tyranny with which, in feudal times, the lord oppressed his villeins. A Russian serf could not marry whom he pleased; labour was ruthlessly extorted from him by the stick and by other means of corporal punishment; and a trivial offence, perhaps never properly investigated, would often consign a serf to perpetual Siberian exile. The present Emperor of Russia has made every Russian serf a free labourer, and has given him possession of two-thirds of the small plot of land which he held upon the feudal tenure previously described. The time which has elapsed since this great scheme of emancipation was completed, is too brief to enable a judgment to be formed as to its results. It need cause no surprise or

The present and former condition of the Russian serfs described.

disappointment that so fundamental a change in the social and economic condition of a nation, should be accompanied with some temporary inconvenience, even to the emancipated serfs themselves. But all experience would lead to the conclusion that Russia will in a few years derive incalculable advantage from a reform which may convert millions of serfs into as many prosperous peasant proprietors. Nothing probably has so powerfully contributed to promote the extraordinary progress of Prussia as the reforms which were carried out in her system of landed tenure, at the commencement of the present century, by Stein and Hardenberg. A feudal tenantry was transformed into cultivating proprietors, who have probably more than any other class contributed to the social and material advancement of Prussia.

CHAPTER VII.

METAYERS AND COTTIERS, AND THE ECONOMIC ASPECTS OF TENANT RIGHT.

The metayer system.

A VERY considerable portion of the land of Europe is cultivated by metayers, and nearly the whole of the soil of Ireland before the famine in 1848 was occupied by cottier tenants. A metayer originally occupied the land on the condition that the landowner should receive one-half the produce as his rent. The name is still preserved, although the terms of this tenancy have been much modified. Almost the whole of Tuscany is cultivated by metayers, who pay the landlord two thirds of the produce as rent; a metayer tenancy therefore now signifies, that a certain fixed portion of the produce should be paid as rent. Whether this portion should be one half, two thirds, or any other amount, seems chiefly to be regulated by the customs of different countries. Those who are only acquainted with English agriculture find it difficult to imagine the great extent of land which is cultivated by metayers. Before the revolution of 1790, nearly the whole of the land of France was rented by metayers, and even at the present time scarcely any other system of landed tenure is known in Piedmont, Lombardy, Tuscany, and other parts of the Italian peninsula.

The cottier system.

The cottier tenure is so anomalous that it is not easy to characterise it in a brief description. It may however be said generally, that a landlord takes from a cottier in the form of rent the utmost possible amount. The cottier has only in fact left to him the means of bare subsistence. Cottier rents are nominal in pecuniary amount; because these rents are fixed so high, that it is impossible for the cottiers ever to pay them. The nominal amount of the

rent far exceeds the whole produce which the land would yield. These tenants, therefore, are perpetually in arrear, and this gives the landlord the means of appropriating to himself the whole advantage of any unusually good crops.

Comparison of cottier and metayer systems.

We have classed metayers and cottiers together, because the same disadvantages in part belong to these two systems of landed tenure; but the results which arise from these tenures offer in many other respects a striking contrast.

The metayer system exhibits the control of competition by custom.

The metayer tenancy illustrates in a very remarkable manner the control which custom exerts over competition; for the fact that metayer tenure prevails throughout a country plainly indicates that many landlords sacrifice their own interests, in order to obey a custom; since it can be readily shown, that the rent of land, if regulated by competition, would in the majority of cases greatly exceed the metayer rents which are paid. And this will be true whatever may be the portion of the produce at which the metayer rents are fixed; for instance, in Tuscany two thirds of the whole produce is apportioned to the landlord. This is probably the highest metayer rent which is paid. The fertility of the soil of Tuscany must be such, that one third of the produce which is yielded by any land which is cultivated suffices to pay the expenses of cultivation, and also remunerate the tenant for his labour. If one third of the produce was not sufficient to do this, the land would be cultivated at a loss; since it is supposed that two thirds are allotted to rent. But if one third of the produce yielded by inferior land is sufficient for the purposes we have just mentioned, then it is manifest that one third of the produce yielded by more fertile land would more than suffice, according to the rate of profit current in the country, to remunerate the tenant for the capital he expends, and for his labour of superintendence. But when rents are regulated entirely by competition, a farmer cannot hope to obtain more than the average rate of profit, and, in such a case, the farmer who cultivates productive land is not in a better position than a farmer who occupies land of inferior productiveness. The landlord is able to appropriate to himself the whole advantage of the increased fertility; since, when rents are regulated by

BOOK II. CH. VII.

Different profits of farmers under the rack-rent and metayer systems.

competition, they are adjusted in proportion to the fertility and other advantages which a particular farm may possess. When, therefore, metayer rents are paid, the tenants who happen to occupy the most productive land possess a beneficial interest, and the value of which is proportioned to the productiveness of the soil. We will illustrate our meaning by an example. Let it be supposed that there are two farms which vary greatly in productiveness, but in the cultivation of which the same amount of capital is invested; this amount being 2000*l.* Let it be further assumed that the ordinary rate of agricultural profit is ten per cent., and that therefore these farmers will be satisfied with a profit of 200*l.* The annual expense of cultivation, including wages, seed, wear and tear of implements, &c., may be assumed to be in each farm 800*l.* Let the annual amount of the produce of the two farms be respectively 1800*l.* and 1500*l.* If, therefore, the two farms paid rents of 800*l.* and 500*l.* respectively, there would in each case be 1.000*l.* left to the farmers; this would replace their capital, and leave them 200*l.*, or a profit of ten per cent. as a remuneration for their own labour and capital. These farms therefore, if the rents were regulated by competition, would pay rents of 800*l.* and 500*l.* respectively. We will now examine what would occur if these two same farms, cultivated by the same amount of capital as before, paid a metayer rent of one third the produce; the produce from the two farms above supposed being 1800*l.* and 1500*l.*, the metayer rents would consequently be 600*l.* and 500*l.* respectively. The worse farm of the two therefore pays the same rent as before, but the better farm pays a rent of 200*l.* less; therefore the metayer tenant who occupies the more fertile farm would have a beneficial interest which might be estimated at 200*l.* per annum. In any special case, the amount of this beneficial interest depends upon the productiveness of the land. The purport of this example has not been to prejudge the question, whether or not, under a metayer tenure, the landlords receive smaller rents, and the tenants are better off than if they occupied the land upon a rack-rent. Such a question can only be determined by considerations upon which we will proceed to remark. But the object of the above example is to

show, that when rents are regulated by a custom which fixes them at a certain definite proportion of the produce, then the rent paid by the most productive soils is less in excess of that paid by the least productive than it would be if both were let on rack-rent.

Various arrangements of the metayer system.

The arrangements connected with the metayer tenure vary greatly in different countries. The landlord almost always supplies a portion of the capital. Sometimes he provides the stock, the tenant buying the seed and implements. In Piedmont, the landlord pays the taxes, and repairs the buildings, and the tenant provides stock, implements, and seed. According to Arthur Young, the conditions of the metayer tenure in France before the revolution, were far more complicated and variable than at the present time. In Champagne the landlords commonly find half the cattle, and half the seed, and the metayer, labour, implements, and taxes: but in some districts the landlord bears a share of these. In Rousillon, the landlord pays half the taxes; and in Guienne, from Auch to Fleurne, many landlords pay all. Near Aguillon, on the Garonne, the metayers furnish half the cattle. But the metayer tenures of all countries are controlled by the principle, that the conditions of the tenure are arranged according to an undeviating usage. Thus, if it is customary in Piedmont that the landlord should pay the taxes, repair the buildings, and receive two thirds of the produce as rent, it would be an unheard of thing for a metayer tenant to have his rent raised to three fourths of the produce, or to be displaced from his occupation, because some other person offered the landowner a higher price for the use of the land. The whole tone of public feeling would prevent the landlord accepting such an offer; in fact, persons would be restrained from making the offer by feelings similar to those which prevent a barrister publicly announcing that he will hold briefs at one half the customary fees. Land is often retained for many generations in the same family, by metayer tenants; they almost regard the land as a patrimonial possession, because they believe that they will not be displaced from its occupation, and that the conditions on which they hold it will remain unchanged. Metayer tenants therefore may justly, in a modified sense, regard the land as

Difference between metayers

and peasant proprietors.

their own property, and consequently to this tenure belong, in part, those advantages which, as we showed in the last chapter, result from small properties when cultivated by their owners. We say these advantages only belong in part to the metayers, because many of those motives upon which depend the advantages of peasant properties only act with limited effect in the case of a metayer tenure. For instance, a metayer feels that he has a claim to only a portion of the fruits of his labour; if he is more industrious, and his land is made more productive, the landlord takes a portion of this increased produce, therefore the feeling of self-interest which stimulates the active and intelligent industry of the peasant proprietor cannot act with similar force upon the metayer. But there is a much more serious objection than that which we have just noticed. Under a metayer tenure, the land is almost sure to be badly cultivated, for the nature of this tenure opposes the application of capital, either by the landlord or by his tenant. For instance, if the land is drained at the expense of a metayer landlord, whose rent is one third of the produce, the land is of course made more productive, but the landlord only secures one third of the increased produce; the remaining two thirds is gratuitously given to the tenant, who has borne none of the expense. If, on the other hand, the land was drained at the sole cost of the tenant, he, in a similar manner, will only obtain two thirds of the advantage; the remaining one third would be gratuitously presented to the landlord. Whenever the metayer system is inefficient, it is no doubt principally due to this cause; in fact, the strongest opponents of metayer cultivation most strenuously insist on the great want of capital which it exhibits. This objection may be, and is, no doubt, overcome in those countries where the metayer farming is most satisfactory; for when the application of capital is required, there is no reason whatever why the metayer landlord and his tenants should not equitably arrange between themselves the particular amount which each party should respectively spend. If the metayer rents were one third of the produce, then it might be equitably arranged that one third of the cost of such an useful improvement as drainage should be borne by the

Inefficiency of metayer system generally due to want of capital.

landlord, and the remaining two thirds by the tenant. The terms of the contract might be varied under different circumstances; the tenant ought not to pay so much, if there was any chance that his term of occupation would be limited. Arrangements similar to these are frequently made between English landlords and their tenants, when money is borrowed from the Land Improvement Companies, for the purpose of carrying out works of permanent utility. Although it has been pointed out that a metayer might not have the same motive as a peasant proprietor has to improve the land by incessant industry, and by judicious application of capital, yet on the other hand, it must be remembered that the labour of the metayer will be, in all probability, much more efficient than that of our own agricultural labourers, who simply work for hired wages; they have no interest in the work in which they are employed, they have no motive but to labour with just sufficient skill and regularity to avoid being dismissed. To them it is a matter of little moment whether their employer's profits are large or small. The indolence and carelessness which are thus engendered cause a loss to an employer of hired labour which is rarely adequately appreciated. In metayer cultivation, little hired labour is employed. A metayer generally occupies no more land than he can himself cultivate with the assistance of his family. He therefore, far more than the hired labourer, is stimulated to be industrious, because the profits which his exertions produce are at any rate in part his own.

Contradictory opinions on the metayer system due to variety of customs in different countries.

The most contradictory opinions with regard to the results of metayer farming have been expressed by those who have observed it in various countries. These different results may, no doubt, be attributed to the particular customs which prevail with regard to the metayer tenures in different countries. Some of these customs have already been noticed. We believe that the efficiency of the metayer tenure depends on the extent to which the customs of a country facilitate the application of capital to the land. The efficiency of the metayer cultivation also, in a great degree, depends upon the security which the tenant has that he shall not be disturbed in the possession of his holding. It is hopeless to expect that there

ever can be good farming when the cultivator is a mere tenant at will, who is ever liable to have his rent raised in proportion to the improvement produced on the land by either his skill or his capital. The evil has been partly remedied in England by the leasing of farms at a rack-rent for a period of years which varies from seven to twenty-one; but, even under this system, enterprise on the part of the farmer is much discouraged; for it too frequently happens that his rent will be raised at the expiration of his lease if he has made his farm more productive. This evil is remedied by the metayer tenure; for, as we have before remarked, a metayer tenant is seldom displaced, and a rent, which is fixed at a certain definite portion of the produce, gives the tenant a beneficial interest in the increased productiveness of the soil. We will now proceed to consider how far these general *à priori* remarks upon metayers are corroborated by the facts which have been derived from experience and observation. Most English writers on this subject, including Arthur Young, Mr. McCulloch, and Mr. Jones, have been unsparing in their denunciations of the metayer system; they assure us that it causes the land to be wretchedly cultivated, that it deprives the landlords of half the rent they might obtain under a different tenure, and that it makes the metayers themselves more impoverished and more wretched than ordinary labourers. But these writers have principally formed their opinions by observing the condition of the French metayers. French agriculture does not, however, afford a fair test of the effects of metayer farming; for it there labours under many disadvantages which do not operate in other countries. Mr. Jones, for instance, supports his opinion by quoting Turgot; but Turgot spoke of the country before the French revolution. Then the exclusive privileges of the French nobility exempted them from direct taxation, and the most burdensome imposts were thrown entirely upon the metayer tenants. But in Piedmont it is an essential condition of the metayer tenure that taxes should be paid by the landowner. In fact, one passage in Arthur Young's own work is sufficient to explain all the defects of the French metayer agriculture. He says that in Limousin and Angoumois (the provinces which Turgot adminis-

Unsatisfactory nature of metayer tenure in France.

tered, and from which he formed his impression of the metayer system) 'the metayers have no virtual fixity of tenure: whereas the metayers of Italy claim fixity of tenure as an essential condition of their contract.' 'Again, in Limousin,' Arthur Young tells us, 'the metayers are considered as little better than menial servants, removable at pleasure, and obliged to conform in all things to the will of the landlord.' Under such circumstances the system must in every respect work badly, and the metayers themselves must inevitably be poor and wretched.

Good results of the metayer tenure in Lombardy,

The metayer tenure of Italy strikingly contrasts with that of France, both in its results and in the nature of the contract. Almost the entire land of Lombardy and Piedmont is cultivated by metayers. The excellence of the agriculture in these countries is proverbial; in fact, it is not surpassed in any country in the world. This excellence is not due to any peculiar natural advantages. The soil of Piedmont is scarcely of average fertility, and Lombardy, it is popularly believed, has for years been exposed to intolerable oppression by its Austrian rulers. Bad government is usually supposed to cause the impoverishment of a country. The Lombard system of agriculture must, therefore, be singularly efficient; for Lombardy has continued one of the best cultivated and most productive countries during the whole period through which it was oppressed by Austrian tyranny. In Lombardy and Piedmont the land is not so much subdivided as in France; a metayer farm seldom exceeds sixty, but is never less than ten acres. The farm buildings are models of convenience and comfort. Competent observers affirm that nothing can exceed the skill and economy displayed in the management of the land. Chateauvieux, who is an excellent authority, says—'In Piedmont and Lombardy the rotation of crops is excellent. I should think no country can bring so large a portion of its produce to market as Piedmont. Though the soil is not naturally fertile, the number of cities is prodigiously great. The agriculture must therefore be eminently favourable to the nett, as well as the gross produce of the land.' Again, he remarks—'In no part of the world are the economy and management of the land better understood than in

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Piedmont, and this explains the phenomenon of its great population and immense export of provisions.'

and in the valley of Arno.

In the valley of the Arno, the metayer farms are much smaller than in Piedmont and Lombardy, their size varying from three to ten acres; and yet, in spite of this great subdivision, numerous travellers have described the valley of the Arno as cultivated with singular care and skill, and as presenting altogether a most prosperous appearance. The holdings are so small that the homesteads of the metayers are situated at a short distance from each other. We are assured that these homesteads appear to be most neatly kept and have a thoroughly comfortable aspect, and the metayer peasants in this valley are well and tastefully dressed. It is true that English writers have said, if you enter the house of a metayer, he does not seem to live as much at his ease and to possess the same luxury as the farmers of other countries; but it is most unreasonable to make such a comparison. A metayer in the valley of the Arno, who cultivates his five or six acres of land, ought not to be contrasted with our own farmers who possess large capitals; such a metayer is essentially a labourer, he cultivates the land without the assistance of hired labour; if therefore we wish fairly to compare the condition of an agricultural population in a metayer country with its condition under a different system of landed tenure, we ought to contrast the metayers not with capitalist farmers but with agricultural labourers working for hire. If this comparison is made, there certainly can be no doubt that the metayers of Italy in their social and economical condition are in every respect greatly superior to our own agricultural labourers.

Kindly feeling between landlord and tenant under the metayer system.

Chateauvieux bears the most important testimony to the beneficial influence exerted upon the landlords by a metayer tenure. Nothing, in fact, seems to enforce with so much practical effect the important maxim, that property has duties as well as rights. The following very intelligent remarks are made by Chateauvieux: 'The metayer system constantly occupies and interests the proprietors, which is never the case with great proprietors, who lease their estates at fixed rents. It establishes a community of interests, and relations of kindness between the proprietors and the metayers—a kindness which I

have often witnessed and from which result great advantages in the moral condition of society. The proprietor under this system, always interested in the success of the crop, never refuses to make an advance upon it, which the land promises to repay with interest. It is by these advances, and by the hope thus inspired, that the rich proprietors of land gradually perfect the whole rural economy of Italy. It is to them that it owes the numerous systems of irrigation which water its soil, as also the establishment of terrace culture on the hills—gradual but permanent improvements which common peasants, for want of means, could never have effected, and which could never have been accomplished by the farmers, nor by the great proprietors who let their estates at fixed rents. The metayer system therefore forms of itself that alliance between the rich proprietor, whose means provide for the improvement of the culture, and the metayer, whose care and labours are directed, by a common interest, to make the most of these advances.' Sismondi, who was a resident metayer landlord, speaks in warm approval of the system. He proves by the most definite facts that under the metayer tenure the land is well cultivated, and that the condition of the metayer tenants is in every respect most satisfactory.

Impracticability of introducing this system into England.

The object we have had in view in making these remarks upon the metayer tenure has not been to propose its introduction into England; this, even if desirable, we well know is impossible, for it is the fundamental principle of this tenure, that the rent of land should be regulated by custom and not by competition. But custom is gradually exercising less influence upon the commercial arrangements of our own country; and rents, profits, and wages are each year apportioned more completely in accordance with competition. We have, however, been chiefly induced to make these remarks, because the prejudice of English writers against every system of landed tenure different from our own has been so great, that it is commonly assumed that the metayer tenure produces unmixed evils in the countries where it exists, and that these countries can never be greatly improved until it is replaced by a system of cultivation resembling our own. The facts just mentioned are sufficient to disprove such an opinion, for we believe the following propositions

have been established:—that the metayer system of cultivation is in many instances extremely efficient;—that the metayer tenants are generally in a condition greatly superior to our own day-labourers;—and, that the metayer landlords are often induced to perform those duties pertaining to landed property which are too frequently neglected by the landowners of our own country. Without wishing, therefore, to advocate any Utopian scheme for the introduction of this tenure into England, we still think it very important that its merits as well as its defects should be known.

Cottier tenure.

It has already been stated that the cottier and metayer tenure will be described in the same chapter; because the former system of cultivation exhibits, in an aggravated form, many of those defects which belong to the latter.

Ireland.

The cottier tenure has existed on a far more extended scale in Ireland than in any other country, for before the famine of 1848 nearly the whole of the land in Ireland was cultivated by cottiers, and even at the present time they occupy a very considerable portion of it. The cottiers of Ireland may be described as peasant cultivators; for they rent the land directly from the landowner, and cultivate it by their own labour. The produce of the land is, therefore, as in the case of the metayer tenure, entirely divided between the landlord and the cultivator; but there is a fundamental difference between the metayer and the cottier tenure. The rent which the metayer pays is definitely fixed by custom; on the other hand, the rent which the cottier pays is entirely regulated by competition. Custom also generally gives to the metayer fixity of tenure, but no such fixity of tenure can be claimed by cottiers; they compete against each other for the possession of a plot of land, and the landlord is only anxious to obtain those tenants who will give him the highest rents.

Cause of the difference between rack-rents and cottier-rents.

Now the rack-rents, which are paid by the large capitalist farmers in England, are regulated by competition; and it may therefore be asked—Can there be any essential difference between rack-rents and cottier-rents? There is this essential and very important difference; a rack-rent is determined by the competition of capitalists, whereas a cottier-rent is determined by the competition of labourers. The consequences of this distinction

we will proceed to explain. When farmers apply large capitals, as in England, to cultivate their farms, they expect to obtain the ordinary rate of profit for their capital, and a reasonable remuneration for their labour of superintendence; it is, therefore, quite impossible that the rent paid by English farmers could long continue so high as to prevent this ordinary rate of profit being received, for if this were so, capital would not continue to be invested in farming, but would inevitably be applied in other employments, where the ordinary rate of profit could be secured. Rack-rents, therefore, are kept as it were in a position of stable equilibrium by the competition of capital, for competition of capital signifies that men are eagerly anxious to invest their capital to the greatest possible advantage; and consequently, a rack-rent is in this manner so adjusted, that farming is neither much more nor much less profitable than other occupations. In the case, however, of a cottier tenancy, it is population, and not capital, which competes for the land. The Irish cottiers, for instance, are miserably poor peasants, who possess no capital except one or two tools and the scanty furniture of their wretched hovels. When, therefore, they compete for a plot of land, it is absurd to suppose that they calculate the rent which they are willing to pay, by considering whether their capital would secure a higher rate of profit in some other investment; they are themselves fit for no other employment, and all the capital they possess would scarcely realise more than a nominal sum.

Disastrous effects of the cottier system upon Irish labourers.

To a cottier, the possession of a plot of land is not a question of profit, but subsistence; and consequently, in any district, the more numerous is the peasantry the more actively will the land be competed for. The peasantry of Ireland were so long accustomed to poverty, that they were satisfied if they could occupy a plot of ground, and obtain from it just sufficient food to provide a bare subsistence; they had no habitual standard of comfort; every adult peasant married, and a want of food, with its consequent diseases, was the only check upon population. Such being the condition of the Irish peasantry, it may be naturally supposed that cottier rents were forced up to their highest possible point; the cottier could only obtain just sufficient to live upon,

and the whole remaining produce was paid to the landlord as rent. The pecuniary amount of these cottier rents may be regarded as merely nominal; a peasant was so anxious to obtain a plot of ground, that he cared not what rent he offered for it; he well knew that the landlord, whatever was the nominal amount of rent, must leave him sufficient to live upon. And thus we learn, from the evidence taken before Lord Devon's Irish Poor Law Commission, that the nominal amount of many of these cottier rents exceeded the whole produce which the land yielded, even in the most favourable season. The cottier was consequently in constant arrear to his landlord; the landlord had of course a legal right to distrain for the rent, but such a remedy was of no value, for the whole property of the cottier was scarcely worth seizing. Neither could the landlord gain much by resorting to eviction, for the evicted tenant would only be replaced by another tenant of the same character, whose arrears of rent would accumulate with similar rapidity. Although eviction is a legal right of the landlord, yet he was restrained from exercising this right by the powerful motive of personal safety. Assassination was the retribution with which the cottiers of Ireland not unfrequently punished an evicting landlord. The economical condition of no other country has ever been so unsatisfactory as was the condition of Ireland under the cottier tenancy; for the cottiers, having taken the land at a rent which it was impossible for them to pay, had no motive whatever to be industrious; if by skill and labour the land was rendered more productive, the increased produce was absorbed in the rent of the landlord. The rents were, in fact, fixed so high, that whether the seasons were favourable or not, whether the land was well or badly cultivated, the cottier tenants could never expect to obtain for themselves any more than a bare subsistence; hence it has been aptly remarked, that the Irish cottiers were the only people in the world, whose condition was so deplorable that they gained nothing by being industrious. No scheme could possibly be devised which would act more effectually to impoverish the people, and throw the land into the most wretched state of cultivation. The progress of Ireland cannot be marked by

Assassination.

The direct tendency of the cottier system is to impoverish the people and lower the cultivation.

a surer sign than by the gradual abolition of the cottier tenure.

Conacre.

In Ireland there was also a subsidiary kind of tenure, termed conacre. If a landlord required any labour to be done on his estate, it was a frequent practice for him to pay the labourers he employed, not by money, but by giving them a plot of manured ground rent free; the plot thus held, on the condition that the tenant should give the landlord so much labour, was termed conacre. This tenure was feudal in its character; for during the middle ages, a great portion of the cultivated land was granted to tenants on the condition that they should be bound to perform certain personal services for the landowner, or, as he was then termed, the lord. These personal services consisted either in providing the lord with mere ordinary manual labour, or else with men and weapons for war-like purposes.

A feudal tenure.

The Ulster tenant-right.

In Ulster a peculiar kind of landed tenure prevails, in consequence of the existence of a particular form of tenant-right. It is ordinarily supposed that tenant-right represents the compensation which is paid to the tenant by the landowner for improvements carried on by the tenant's capital and skill, and the effects of which are not exhausted at the time when the tenant relinquished his occupation. The Ulster tenant-right is something very different. For it represents a sum sometimes amounting to as much as the value of the fee-simple of the land; this sum is paid for the goodwill of the farm, by the incoming to the outgoing tenant. Side by side with this tenant-right there also exists in Ulster the tenant-right first described. For if an Ulster tenant relinquishes his occupation to his landlord he obtains from the landlord compensation for unexhausted improvements. The Ulster tenant-right has no legal sanction, it is simply a custom, which is in almost every instance implicitly obeyed. This may be regarded as a remarkable example of the extent to which custom may control commercial transactions. The large sum which is paid by the incoming to the outgoing tenant represents partly a premium for goodwill, and partly compensation for unexhausted improvements. This latter portion is no doubt fairly due to the outgoing tenant; but the premium which is paid for

the good-will ought properly to belong to the landlord; for if the farm were let at its full rent, no one would consent to pay a large sum for the good-will. Great hardships would however be inflicted upon existing tenants who have bought the good-will of their farms from previous tenants, if landowners were permitted suddenly to exercise their full legal rights. This Ulster tenant-right, so far as it represents a premium for the good-will of a farm, is not likely to conduce to good agriculture. What is really done is this. A tenant instead of paying a full rent, or in other words, such a rack-rent as would be determined by competition, pays a comparatively low rent, because when entering his farm a considerable sum was levied from him for the good-will. The result of this arrangement is, that the tenant, who generally has an insufficient capital for the cultivation of his farm, has to invest a large portion of his means, not as capital upon the land, but in purchasing the privilege of renting the farm at less than its full value. This indicates an economic disadvantage which is associated with the peculiar form of tenant-right prevailing in Ulster.

Tenant-right, as ordinarily understood, means compensation for unexhausted improvements.

It has however been stated that tenant-right, as ordinarily understood, simply represents the compensation received by the tenant, from the landlord, for unexhausted improvements effected by the tenant's capital and skill. This is the tenant-right which the Irish claim to have conceded to them in every case by law. It would seem that great advantages would result if this tenant-right were established by law not only in Ireland, but in every other country where the ownership and cultivation of the land are dissociated. It has been more than once pointed out in these pages that one of the most serious defects in the agriculture of such a country as England, arises from the circumstance that the tenant has not sufficient inducement to apply capital and skill to the improvement of the land. It has been asserted that the greater part of the land of England is occupied by tenants at will, and that five-sixths of the whole cultivated land of Ireland is held upon this tenure. A tenant at will has no valid security that he will be permitted even for one year to enjoy the profit which may result from improvements effected by his capital and skill. A leasehold

tenant is in a better position; but at the expiration of his lease, he may have his rent raised by a sum equivalent to the annual value of the improvement produced in the land, either by his skilful farming or by an outlay of capital on his part. Those who object to the establishment of such a legal tenant-right as this, are accustomed to say that the law has no right to interfere between the landowner and the tenant—that if a tenant is willing to rent a farm without the stipulation that he should receive compensation for improvements, it cannot be said that any injustice is done to the tenant, because the arrangement is simply a voluntary one between man and man. But the question involves far higher considerations than the settlement of a bargain between one man and another. If no one had to be considered but landowners and tenants, they might be allowed to settle as they like their business transactions. But the good or bad cultivation of the land deeply interests the whole nation; the arguments therefore in favour of tenant-right vastly preponderate over any of the objections to which allusion has been made; for it must be remembered that there can be no reasonable expectation that the land will be cultivated as well as it might be, until the establishment of tenant-right gives every tenant farmer an adequate security that he will not be deprived of advantages which justly belong to him, as they result from the application of his skill and capital. At the present moment tenant-right is regarded as a question chiefly concerning Ireland. The Irish land question has advanced to that stage when immediate legislation upon it is imperatively required. But events will probably soon shew that there is an English as well as an Irish land question. Allusion has been made in the previous chapter to reforms in the law of real property which it is most important should be immediately carried out. It should moreover be borne in mind, that if the arguments in favour of tenant-right in Ireland are conclusive, similar arguments can be advanced to support the establishment of tenant-right in England.

The land will never be as well cultivated as it might be until this kind of tenant-right is conceded.

CHAPTER VIII.

NATIONAL EDUCATION AND OTHER REMEDIES FOR LOW WAGES.

Remedies for low wages are often illusory.

THE great mass of the labouring population, in even the most prosperous and civilised countries, is so poor, that a philanthropic sympathy is excited, and remedies are constantly being proposed with the object of improving the condition of the poor. The practical utility of political economy cannot be better illustrated than by applying its principles to test these remedies. When this is done many of them will prove to be vain and illusory; it will be shown that they not unfrequently cause the opposite effects to those which they are intended to produce and increase the poverty they seek to alleviate. Strikes and cooperation are the two remedies for low wages in which at the present time different sections of the labouring class place most faith. We shall therefore devote a separate chapter to the influence which may be produced by strikes and cooperative societies. But before doing so, it will be well to consider some other remedies in the efficacy of which many people have at different times expressed the greatest confidence.

Principles by which they must be tested.

If our readers revert to the chapter in which the laws of wages were discussed, it will be perceived that the following principles can be applied to test the efficacy of any of the means which may be proposed to raise wages. The remark has frequently been made that the capital of the country provides its wage-fund. This wage-fund is distributed amongst the whole wage-receiving population, and, therefore, the average of each individual's wages cannot increase unless either the number of those who receive wages is diminished, or the wage-fund is aug-

mented. Therefore, with regard to all questions concerning a general rise of wages, it should first be ascertained whether the agency by which this rise is intended to be effected will exert any influence in diminishing the number of the labouring population, or in augmenting that portion of a nation's capital which is retained for home investment. If it can be proved that such an influence will not be exerted, it may be concluded that a general rise of wages cannot take place. In the consideration, however, of such a question several precautions must be carefully observed. For instance, it has been said that the produce of labour is divided into two shares; one of these shares is termed the profits of capital, and the other share is termed the wages of labour; therefore, *cæteris paribus*, if wages increase, the share apportioned to capital, or, in other words, profits, must diminish. Hence it may be concluded that, when wages increase, profits must decrease. But, before admitting such a conclusion, it is necessary to inquire whether circumstances may not occur which will enable a rise of wages to take place without being accompanied by any decrease in profits. If, for instance, labour is made more efficient by the labourer becoming more skilful and more energetic, the produce of labour will be increased, and the share allotted not only to labour, but also to capital, might be augmented. If, therefore, any method is suggested by which it is proposed to increase wages, it is most important to endeavour to discover whether the proposed increase will be taken from the profits of capital or from the additional wealth produced by making labour in any manner more efficient. In the first case, the rise of wages cannot be permanent; the nature of the rise creates its own destruction; for the amount of capital accumulated depends on the inducement to save. If, therefore, profits are diminished, there is not so great an inducement to save, and the amount of capital accumulated will decrease; the wage-fund will consequently be diminished, and there will be a smaller amount to distribute amongst the labouring classes. The practical importance of this consideration will be shown when discussing the subject of strikes. We will now proceed to consider in detail some of the popular remedies for low wages.

Do they tend to increase capital or to diminish population?

Is the increase of wages expected from a diminution of profit or an increased efficiency of labour?

Attempts to regulate wages by law are always either futile or mischievous.

Our own statute-book proves that the attempt has frequently been made to regulate wages by law. The enactments which have been passed with this object illustrate the shifting policy of our Government. On one occasion, when the employer is to be favoured, a law is passed limiting the amount of wages which the labourer is to receive. When the employed is to be protected, the employer is forbidden to offer the labourer less than a certain remuneration. Such legislation is always either futile or mischievous. It will be necessary to examine several cases in order fully to elucidate the effects of legislative interference with wages. In the first place, suppose a general law were passed enacting that wages in every employment should be raised 20 per cent. If employers were unable to repay themselves for the higher wages they were compelled to give, by a rise in the price of commodities, it is evident that this advance in wages would simply represent so much taken away from profits.

Any legislation which lowered the rate of profit would lead to the export of capital.

The immediate consequence of this would be a contraction of business. Capitalists would find it less profitable than heretofore to invest money in home industry. A large portion of the national capital would be exported; a great advantage would be given to our foreign competitors in every branch of industry. They would undersell us even in our own markets; our foreign and our home trade would be most seriously crippled. The result therefore of any attempt to secure a general advance in wages by law would be mischievous to the whole nation and especially disastrous to the labourers themselves. An advance in wages implies an increase in the wage-fund, or a diminution in the numbers of those among whom the wage-fund is distributed. A law to regulate wages such as that just indicated would for reasons previously stated diminish the wage-fund; moreover its immediate effects would be to stimulate an increase of population. For in the present social and moral condition of the labouring poor even a slight temporary improvement in their material condition at once leads to earlier and more improvident marriages. In a few years therefore there would be a greater number of labourers competing for employment: the demand for labour would at the same time be constantly diminishing, since the capital invested in home

industry would steadily decrease as long as the law artificially to raise wages continued in operation.

The consequences of Government interference examined.

It may be thought that these evil consequences would not ensue if a law to regulate wages only affected some special trades, in which all are ready to admit that wages are too low. In order to examine a case which seems to be the most favourable for Government interference, let it be assumed that a law is passed declaring that no able-bodied agricultural labourer shall receive less than fifteen shillings a week. It can be urged that no man ought to receive less than this amount; and that in fact, fifteen shillings a week is the minimum upon which a man with a family can maintain himself in full health and vigour. It is probable that employers would be benefited if the wages of the worst paid labourers were raised. An opinion has in fact been already expressed, that farmers who only pay their labourers nine or ten shillings a week act as unwisely as if they were to give an insufficiency of food to their horses. Facts indisputably demonstrate that the labour which receives the lowest remuneration is often not the least costly. It would therefore seem that a law fixing the minimum of agricultural wages at fifteen shillings a week would not only confer a boon upon the labourers, but would inflict no loss upon their employers. Such might be the immediate effects of this legislation; but unless this advance in wages were accompanied by a corresponding elevation in the social and moral condition of the labourer, earlier and more improvident marriages would indubitably ensue. An increase of population would thus be artificially stimulated; a legislative discouragement would moreover be given to emigration; in a few years the supply of labour would be unnaturally increased; nothing would at the same time have occurred to augment the demand for labour. Hence the ultimate effect of legislative interference with wages even in the most favourable case that can be supposed would be to produce an excess in the supply of labour when compared with the demand for it; or, in other words, there would soon be a large class unable to obtain employment who would have to be supported by parochial relief.

It may be said that no one at the present time seriously proposes to ask Parliament to regulate wages. Such a

Other forms of legislative interference with wages.

request is now never directly made; but demands are constantly put forward which plainly show that many still continue to be influenced by the same fallacies which formerly misled those who considered it to be the duty of Governments to regulate wages. In some of the states of the American Union laws have been passed fixing a day's work at eight hours. Such a law would certainly find favour with some very intelligent workmen in England. With much plausibility they argue that if this eight hours' law were passed, labourers would probably receive as much for eight hours' work as they do now for ten hours' work; for it is said that the supply of labour would be diminished, and therefore its remuneration would be proportionately increased, if men were forbidden to work more than eight hours a day. In order to show the fallacy of this reasoning, it will only be necessary briefly to allude to some of the consequences which we have above shown would ensue if a law were passed to raise wages. Employers would find their profits diminish if they had to pay as much for eight hours' as for ten hours' work. This diminution of profits would cause capital to be withdrawn from business, and our industry would be crippled. It may, however, be argued, that employe· could recompense themselves by charging a higher price for their commodities. It must not, however, be forgotten that each country has to carry on a keen contest with foreign competitors. England, therefore, would have to succumb to her foreign rivals, if the price of her products were thus artificially raised, and her trade would consequently be paralysed. But even supposing that she had nothing to fear from foreign competitors, and that a rise in general prices sufficient to compensate employers for increased wages could be maintained, the additional remuneration received by the labourer would be nominal and not real; if he obtained a greater number of shillings for a certain number of hours' work, these shillings would be of less value to him than before; for since general prices have risen they would possess less purchasing power.

The consequences of an eight-hours' bill.

Many, no doubt, are induced to advocate an eight-hours' bill, from a conviction that at the present time men are often over-worked, and that as much would be done in eight hours as in ten. If this opinion is correct, employ-

ers could of course afford to pay the same wages for a shorter day's work. Every one would rejoice if such a change were brought about; for it is most desirable that the hours of toil should be as far as possible diminished, so that men may have more leisure for physical and mental enjoyment. Nothing is a greater reproach upon our vaunted material progress, and nothing more surely indicates the grave defects in our existing economic arrangements, than the fact that a vast augmentation of national wealth has hitherto done so little to make the labourer feel that his struggle for existence is less severe. But if it is true that as much work can be done in eight hours as in ten, employers should be made to recognise the circumstance, not by legislation, but by experience. It is not difficult to foresee the inconvenience and the countless anomalies that would arise if a law were passed on such a subject. Different kinds of labour vary greatly in severity. It can scarcely be seriously argued that when work is light as much can be done in eight hours as in ten. Some labour is so exhausting that, at the present, eight hours is considered a full day's work. For instance, in the Cornish copper mines, the men who work underground never work more than eight hours in a day; whereas those who are employed in lighter work upon the surface labour for ten hours. In future workmen will have increased opportunities of showing what is the best time for a man to continue working in different employments. Through the agency of industrial associations a larger number of labourers are each year carrying on various kinds of business on their own account. They can therefore make this or any other experiment they please; and no discovery will be more valuable in its social and economic aspects than if they can demonstrate that many of our labourers would be able to do more work if they received higher wages, and if they were employed for a smaller number of hours during each day.

It is possible that in some employments labourers could do as much in eight hours as in ten.

To provide work for the unemployed is a service which many think they have a much greater right to demand from the Government than the regulation of wages by law. We will trace some of the consequences that would ensue, if every applicant had a right, not only to demand work from the Government, but to receive the ordinary

Effects of granting a legal right to employment at the ordinary wages.

wages. When such a privilege was first granted, it might prove very beneficial to the labouring classes, and would not probably be injurious to the general community; but if the privilege were continued, its ultimate effects would no doubt be most disastrous to the nation. If the Government were compelled to find work for the unemployed, it would of course be necessary to provide the money by increased taxation. If this increased taxation were supplied entirely from capital, the wage-fund would not be augmented, but it would, in fact, only be distributed by different owners. The wages which are now paid by the Government would have been before paid by individual employers, and therefore the labouring classes would not in the aggregate have a greater amount of wages distributed amongst them than they were accustomed to receive. But increased taxation, in a country like our own, will only be paid to a very limited extent out of capital. If the income tax were doubled, the additional amount thus obtained would to a great extent be saved from personal expenditure. An employer would rarely be induced to discharge workmen because the income tax was increased. There is therefore, in the first instance, a real gain for the working classes, if the wages paid to labourers by the Government are obtained, not from capital, but from a reduction in the personal expenditure of the tax-payers, or from a diminution in the amount of capital invested abroad. This benefit will often not be confined to the labourers; for a Government may frequently increase the wealth of a country by applying a loan, or increased taxation, to public works, which would not be carried out by private enterprise. It therefore appears that, if a great number of labourers were thrown out of work by some sudden and unavoidable cause, a Government is perfectly justified in promising, as a temporary expedient, to find work for the unemployed. Such a policy need not in any way cripple the productive resources of the country, because the money which is paid away by the Government in wages will not, in the first instance, be provided out of the capital of the nation. The most disastrous consequences, however, would ensue, if the Government continued to give employment to all applicants; for population has an indefinite power to increase; and, there-

The effect might be at first beneficial,

and might justify such a measure in case of temporary emergencies;

fore, no limit could be assigned to the numbers which Government would be compelled to employ, if it engaged to give work to all those who applied for it. If Government offered such assistance to the working classes, there can be no doubt that, in the present state of society, an increase in population would be so powerfully stimulated, that the number of those seeking employment would be constantly augmented; at last the resources of the nation would be strained to the utmost to provide the wages which the Government would be called upon to pay. This is no imaginary supposition, for statistics have demonstrated that the lower classes of society marry with utter recklessness. If they can live when they first marry, they are perfectly contented; the additional expenses which a family entails are not thought of. If, therefore, Government found work for all applicants, marriages amongst the labouring classes would be so encouraged, that increase of population amongst them would no longer be restrained by any prudential checks. The State, therefore, could not continue to find work for the unemployed, unless a law were passed imposing severe checks upon the increase of population. The absolute necessity of this precaution is shown in our own system of Poor Laws. Every parish is bound to provide all those who are charged upon it with food and clothing sufficient to protect them against physical want. But those who claim this relief can be compelled to reside in the workhouse, where they are subjected to certain restraints; man and wife, for instance, are not permitted to live together; if this were allowed, union workhouses would become establishments for breeding hereditary paupers, and the poor-rate would soon absorb the whole wealth of a parish. It therefore appears that there is a fundamental difficulty connected with all attempts to improve the material condition of the poor by any permanent system of relief; for population is encouraged by granting pecuniary assistance to the poor, and consequently the money required for such a scheme of general relief would constantly absorb an increasing amount of wealth. This difficulty can only be met by placing some check upon population; and it would be impossible for our present Poor-Law system to continue, if man and wife were permitted to live together in the union workhouse.

but must be disastrous if the measure were permanent,

because there would be no check on population.

This should be remembered by those who so freely attack such a restraint upon personal liberty, as harsh and unnatural. It is not here necessary to pursue this subject further; as the influence exerted by the poor laws upon the condition of the labourers will be considered in a separate chapter.

Schemes of philanthropy must be sufficient to raise the lower classes to a different stage of comfort.

Any relief which only effects a slight improvement in the condition of the poor, can be of no permanent advantage. The benefit which is, in the first place, conferred, creates its own destruction, by encouraging an increase of population. Any scheme of general philanthropy cannot, therefore, be really efficient, unless it so decidedly improves the condition of the working classes, that they are lifted into a different stage of social and material comfort. The lower classes marry recklessly, because they do not feel that they have any social position to maintain; and they often live so miserably that they cannot be said to have an habitual standard of comfort, such as they will not willingly resign. Men in the middle and in the upper classes will not, as a general rule, marry, if they expect to be obliged to live in an inferior state of comfort, and to bring their children up in a lower social position. Similar prudential motives would control the labouring classes if their material condition could be once greatly improved. They would then possess, as the middle and upper clasess do now, an habitual standard of comfort, which they would not willingly sacrifice by improvident marriages.

National education would effect a real improvement in the condition of the poor.

The natural conclusion to be drawn from these remarks is that no remedy for low wages can be really efficient unless it increases the efficiency of labour and secures a social and moral improvement in the condition of the labourers themselves. This being the case it will not be difficult to show that national education will be the most powerful agency in effecting a real advance in the condition of the poor. It is most essential that this agency should be brought into operation, for many remedies for low wages, such as emigration, will produce no great or permanent effect, unless our people become better educated. If a large portion of the nation is permitted to remain in its present state of ignorance, emigration and every other remedial measure will be powerless to remove the poverty of the very poor.

Education greatly increases the efficiency of labour.

Little need be said in reference to the increased efficiency which is given to labour by education. There is scarcely an industrial process which does not require a mental as well as a physical effort. It has until recently been generally assumed that agricultural operations varied so little from year to year, and that the implements with which the land was cultivated were so simple, that education was of little importance either to a farmer or to his labourers. But gradually the truth is beginning to dawn even upon farmers themselves, that agriculture, as much as any other industry, requires skill and intelligence; that in order to realise satisfactory profits costly and complicated implements must be used, and that these cannot with safety or advantage be entrusted to rude and ignorant workmen. Employers in every part of the country now complain that each year it is becoming more doubtful whether England will be able to maintain the commercial supremacy she once possessed: the countries which are becoming her most formidable competitors are those which like Prussia and the United States have long since established a system of national education. Increased dexterity; greater power of concentration; superior trustworthiness; quickness in discovering a new industrial process and in learning how to use a new machine, are some of the many industrial advantages which the labourer whose mind has been trained generally possesses over one who has grown up in ignorance.

The direct and

indirect benefits of education.

A not less important influence is however indirectly exerted by education upon the efficiency of labour and upon the prosperity of industry. Ignorance almost invariably implies premature employment. Millions in this country are unable to read and write, not because there were no schools within their reach when they were young; but because their parents either through ignorance, poverty, or selfishness, sent them to work at too early an age. Frequent allusion has been made to the deplorable ignorance of our rural labourers; yet it is well known that there are few of them who were not at school when very young. A child, however, who is taken from school when eight or nine years old rapidly forgets almost the whole of the little he has learnt. Wide-spread ignorance therefore is a sure indication that a considerable proportion of

the population has had inflicted upon it the manifold evils which result from premature employment. Health is sacrificed, physical vigour is diminished, and strength often becomes exhausted at an age when men ought still to be in the prime of life. The mischief which thus results is not confined to the labourers themselves; the whole community suffers a severe pecuniary loss if the industrial efficiency of those by whom wealth is primarily produced is impaired. Men who are thus made prematurely old have to be maintained by parochial relief, at a time of life when they ought still to be productive labourers. In this way the burden of local taxation is seriously increased.

England cannot maintain her commercial supremacy unless her labourers are educated.

Each year facts are coming to light which show that the competition which England has to carry on with foreign countries is more keen and more closely contested. She is gradually losing some branches of trade in which she once possessed undisputed supremacy. One example will illustrate the change which is thus in some instances taking place. The chairman of the Birmingham Chamber of Commerce lately asserted that formerly the district round that town made nearly all the locks which were used throughout the world; but that at the present time the industrial appliances of America were so superior to our own, that America imported the metal of which locks are made from Staffordshire, exported the manufactured locks to England, underselling us in our own market. Upon inquiry it is found that all the reasons which are given to account for this superiority of American industry, either directly or indirectly, arise from the imperfect education of our people. Although higher wages are paid in the United States than in England, yet labour is said to be less costly in the former country, because the workmen there possess a quicker intelligence, greater ingenuity, and are more ready to avail themselves of improved mechanical appliances. All this superiority is manifestly due to better education. Again, the complaint most frequently heard from English employers, is that industry is impeded by the heavy burdens of local taxation; and that trades'-unions enforce upon employers regulations antagonistic to the principles of Political Economy. The importance to be attributed to this latter allegation will be

The burdens of local taxation would be lightened by education.

considered in a subsequent chapter upon strikes and trades'-unions. It is here sufficient to observe that if a child is allowed to grow up in ignorance, it can scarcely be expected that when he becomes a man he will possess the requisite knowledge to enable him to guide his actions in strict accordance with the principles of economic science. With regard however to the pecuniary burdens which the industry of this country has to bear, no one can doubt that this is an evil of great and increasing significance. It is almost needless to state that to crime and pauperism are in a great degree due the onerous changes which our industry is compelled to bear. Statistics indisputably prove that ignorance is the fruitful source of crime. Not more than four per cent. of convicted offenders can read and write with facility. It may be said that drunkenness is the most powerful promoter both of crime and pauperism; but there is manifestly an intimate connection between intemperance and ignorance. Men will frequent the public-house if they are unable to derive enjoyment from rational pleasures; for leisure, instead of being a blessing to them, hangs heavily on their hands.

Crime and

With regard to pauperism, there is no hope that it will be diminished until the people become better educated. Higher wages do not make men more provident unless their moral and social character is improved; higher wages simply lead to more expensive living and stimulate an increase of population. The advocates of free-trade confidently predicted that unrestricted commerce would almost extinguish pauperism. After twenty years of free-trade pauperism is found to be increasing, and the pauper question is still the most formidable of all social and economic difficulties. Higher wages frequently fail to promote increased saving. So little frugality is there among many of our labourers, that if depressed trade causes a cessation of employment a majority of those thrown out of work are immediately compelled to apply for parochial relief. Moreover it will be shown in a subsequent chapter that until an efficient system of national education is established there can be little hope that any widespread influence will be exerted by those new economic arrangements, such as co-partnerships and co-opera-

pauperism would be decreased.

tion, upon which we must chiefly rely for the elevation of the people.

Without national education, the beneficial effects of emigration will only be temporary.

Emigration might no doubt become a most effectual remedy for low wages. It not only relieves an overburdened labour market, but by our emigrants countries are developed, to which England must chiefly look for those supplies of cheap food which are so essential to her material progress. But in the present condition of the country there is a grave peril associated with emigration. Those who leave our shores are naturally the most energetic and intelligent of our labourers; the consequence is that emigration is constantly drawing away those whom we can least afford to lose, and those remain behind who are most likely to become a burden upon our resources. While so large a proportion of the population is deficient in frugality, the advantages resulting from emigration are frittered away and no permanent benefit is produced. The relief temporarily given to an overstocked labour market by emigration is quickly neutralised by the increase of population which is invariably stimulated by an advance in wages. During the last twenty years emigration on a large scale has been constantly going on from these islands; yet there never was a time when complaints were more frequent as to the unsatisfactory condition of our labourers.

A brief summary of the effects of a system of national education.

Summarising the conclusions to be deduced from these remarks it may be briefly said that education, by enormously increasing the efficiency of labour, would make labour and capital both more productive; hence there would be more to be distributed in profits to the capitalist and in wages to the labourers. The cost of commodities would be lessened, every branch of industry would acquire a new prosperity, and this prosperity would be shared by the whole community. The additional wages thus obtained would not sow the seeds of future poverty by stimulating an improvident increase of population, but would be enjoyed by a people whose prudential habits would be so much developed as to make them permanently retain the superior standard of living they had acquired.

In proceeding to consider how a system of national education can be secured, it may be remarked that expe-

How can national education be secured?

rience has shown that something more is required than the building and maintaining of schools. The State must resolutely interfere, and boldly assert the great principle that every child shall be protected against the irreparable wrong which is inflicted upon him if he is permitted to grow up in ignorance. The argument that such an interference is too arbitrary an exercise of the power of the State has long ceased to be applicable to this country. The Factory Acts, which in the first instance were applied only to our textile manufactures, have within the last two years been extended to every branch of industry except agriculture. By this legislation it is enacted that no child under the age of 13 shall be employed unless he attends school 15 hours a week. As this legislation has been received with almost universal approval, and as the advantages resulting from it are undisputed, there ought to be no hesitation in compelling those children to be educated who are neither at school nor at work. Every argument which justifies interference with those parents whose children are at work, can be urged with tenfold force in reference to those who so entirely ignore every parental duty, that they permit their children to be neither at work nor at school.

The objections to compulsory education considered.

The objection most frequently brought against compulsory education is that it would deprive poor parents of their children's earnings. This objection is manifestly not applicable except in the case of those children who are at work. The great majority of those who would be at the present time directly affected by a general system of compulsory education are neither at school nor at work; for school attendance is enforced upon every child who is engaged in any branch of industry except agriculture. As it may now be assumed that agriculture will not long be permitted to continue in this exceptional position, it is evident that this plea about the poverty of the parents has little real validity; the enforcement of school attendance takes nothing from those parents who allow their children to grow up in idleness. Although from these considerations it appears that the difficulty associated with the loss of children's earnings is unduly magnified, yet it is very important carefully to estimate the obstacles which are presented by the poverty of rural

labourers to the extension of the principle of the Factory Acts to agriculture.

It has been already stated that there is the most striking diversity in the condition of agricultural labourers in different localities. The report of the commissioners who have lately inquired into the condition of people employed in agriculture shows that few labourers in England are better off than the agricultural labourers of Northumberland. They earn 70 or 80 per cent. more than is earned by their fellow labourers in many parts of the East and South-West of England; they possess other advantages which are now rarely enjoyed by labourers in these less favoured localities. If all our agricultural labourers were as well off as they are in Northumberland the poverty of the parents would supply no argument against the immediate extension of the Factory Acts to agriculture. But it is necessary not so much to consider those who are exceptionally well off, but to inquire how the enforcement of a certain amount of school attendance upon children would affect the Wiltshire or Dorsetshire labourer who is only earning his nine or ten shillings a week. Strange as at first sight it may appear, it is not difficult to show that in consequence of the extreme poverty of these labourers, the loss of a portion of their children's earnings will inflict upon them a very small amount of hardship. Wages of nine and ten shillings a week may be truly designated minimum wages; or in other words, they represent the smallest amount upon which a man with a family can live. That this is the case is strikingly corroborated by the well-ascertained fact that in those districts where agricultural wages are the lowest, the remuneration of the labourer fluctuates with the price of corn. When bread is dear, wages advance. If there is a fall in the price of bread, wages are at once reduced. Farmers when meeting at market talk about the subject with each other; if nine shillings a week represents the current wages, and there is a considerable rise in the price of wheat, it is agreed by common consent that a man with a family cannot live upon nine shillings a week; consequently an understanding is arrived at, which everyone throughout the locality obeys, that wages shall be raised to ten or eleven shillings a week. It seems contrary to the generally ac-

The poverty of parents shown to be a not insuperable difficulty.

cepted principles of Political Economy that wages should fluctuate with the price of wheat. A rise or fall in its price does not indicate any change, either in the amount of capital invested in agriculture, or in the supply of labour. But the fact that wages continue in these localities exceptionally low, distinctly indicates that the remuneration of the labourer is not controlled by the general competition of the labour-market, but is determined by the particular circumstances of the locality. If, therefore, wages are kept down at a minimum, as in Wiltshire and Dorsetshire, it is evident that a man cannot be much worse off if he is deprived of a portion of his children's earnings. A calculation is made as to the smallest amount upon which he can live; in making this calculation the earnings of his children are of course taken into consideration. The amount therefore which has to be allotted to him must be somewhat increased if the earnings of his children were to a certain extent reduced. It must also be borne in mind that a child does not necessarily lose half what he has been accustomed to earn if he is compelled to spend one half of his time at school. Such a restriction upon labour diminishes its supply, and consequently exerts a tendency to raise its price. Moreover, an indirect effect would be exerted upon the remuneration of adult labour by diminishing the supply of juvenile labour; for the employment of children often reduces the wages of the adult labourer. It may be thought that if labour were thus made dearer, a tax would be imposed upon employers; any loss which they might in this way suffer could be but temporary; in a few years they would receive a rich recompence in possessing a body of educated labourers.

An education rate would be wanted,

It is almost certain that a system of national education could not be carried out without an educational rate. The best mode of levying such a rate involves many important economic questions, the discussion of which had better be postponed until the subject of local taxation is considered. Enough has already been said to indicate the wide distinction between a rate in aid of education, and a rate for the support of pauperism. The whole history of our Poor Law proves that pauperism begets pauperism; and therefore, in levying one poor rate the foundation of another is

laid. But an education rate may be required only to meet a temporary evil. Once get the whole nation educated, and no compulsion, and no extraneous pecuniary aid, will be needed to prevent the people lapsing again into ignorance. Parents who have themselves enjoyed the blessings of education may be safely entrusted to be the guardians of their children's education. Sometimes it is said that in Prussia compulsory education has become a dead letter because compulsion is rarely employed. This is the most striking evidence of the success of the system; compulsion is not needed, because, in Prussia, a father would as soon think of depriving a child of food and clothing, as he would think of permitting him to grow up in ignorance. What has been achieved in Prussia might be attained in England.

but the necessity would only be temporary.

As the nation advances in intellectual development, many agencies for improving the condition of the people will be spontaneously brought into operation. Thus, at the present time, the gravest moral and economic evils result from the miserable dwellings in which so many of our labourers live. If, however, the character of these people became elevated, they would absolutely refuse to herd together in hovels, where many of the decencies of life must necessarily be ignored. Every landowner would then feel that it was as essential to provide commodious cottages as good farm buildings. Many schemes of philanthropy now prove abortive, because people are not in a position to utilise advantages which are brought within their reach. Complaints are frequently made that it is comparatively little use in erecting better cottages, because if one or two extra bedrooms are provided, they are certain to be let to lodgers, and things soon become as bad as they were before.

If the people were educated their material and moral condition would be improved.

People often become disheartened when they observe the little permanent influence produced by some well devised scheme for ameliorating the condition of the poor. Thus it was confidently hoped that the granting of allotment gardens would do much for the labourers. There can be no doubt that these allotments might exert a most beneficial influence. They are not however in themselves sufficient to raise the condition of a class. Too much was in fact expected from them. People became disappointed,

The influence of allotments in ameliorating the condition of the labourer.

and many high authorities on economic subjects have consequently underrated their possible advantages. It has, for instance, been maintained that, in the case of our worst paid labourers, an allotment only acts as a rate in aid of wages; that these labourers obtain from their wages and their allotments only just sufficient to live upon; and that, consequently, their wages would have to be advanced if they were deprived of their allotments. In some cases there is a certain amount of truth in these allegations; but as the labourers gradually improve, the produce obtained from an allotment must represent a real addition to wages. When allotments can be provided for town labourers, they not only supply much produce which would be expensive to purchase, but they furnish a healthy and most desirable occupation for leisure time. The greatest care should therefore be taken to secure land for allotments. The enclosure act of 1845 specially provided that when land was enclosed, some portion of it should be reserved, as allotments for the labouring poor. These provisions have been most shamefully ignored. In the present year (1869) it was proposed to enclose in different parts of the country 6,900 acres of land, and the whole amount reserved as allotments for the labouring poor was 6 acres.

Sometimes it is urged, with the supposed object of benefiting the poor, that our remaining waste lands should be brought under cultivation. Those who make such a demand should remember that since the commencement of the last century nearly 5,000,000 acres of land have been enclosed. Evidence which has been repeatedly given before Parliamentary Committees indisputably proves that in the case of almost all these enclosures the interests of the poor have been systematically neglected. The land which has been thus enclosed has sooner or later been added to the large estates of neighbouring proprietors. Land over which the public could exercise many most valuable rights and privileges is, when enclosed, converted into private property. The opportunities for recreation and for enjoyment are not only greatly curtailed, but labourers who have been accustomed to graze a cow or feed poultry upon a common, never again have a similar opportunity when the common is enclosed. Those who possess rights of common are no doubt, in the first instance, com-

Labourers often suffer severely through the enclosure of waste lands.

pensated; but the benefits of this compensation rarely extend beyond those who receive it. The small plot of land which is allotted to some poor commoner is almost certain to be sold; whereas his rights of common constituted a property which could not be alienated. Formerly it was advantageous to bring unenclosed land under cultivation, but enclosures have now in almost every locality gone far enough. Every new proposal for destroying a common should be watched with the utmost jealousy. Such public lands as commons must each year become of more value and importance to the whole community, in a country where land is so scarce, and so eagerly sought after as it is in England.

No agency will effect a lasting improvement in the condition of the poor, unless it makes them rely on self-help.

Many other remedies for improving the condition of the poor have from time to time excited public attention. The efficiency of these may be tested by considerations similar to those which have been mentioned in this chapter. The question of primary importance is this. Will the agency proposed exert an influence to make the poor rely upon self-help? In seeking to find an answer to this question, we have been led to conclude that all remedies for low wages cannot permanently prove effectual until the whole community has been brought under the influence of a comprehensive scheme of National Education.

CHAPTER IX.

TRADES'-UNIONS AND STRIKES.

Importance of considering the question of strikes calmly.

THE frequency of strikes during the last few years has been a prominent feature in the social condition of England. The labouring classes would not be always ready to make such great sacrifices to support a strike, unless they believed that it was an efficient remedy for low wages. The subject demands a careful and dispassionate consideration, for the prejudices of each party in the dispute are so strong, and the feelings excited so angry, that little is heard but useless recrimination and unreasoning partisanship.

Trades'-unions have two objects; that of ordinary friendly societies, and that of organisations to influence wages.

According to popular ideas, strikes are inseparably connected with trades'-unions, and it will therefore be necessary, in the first place, to settle the much-disputed question as to the purposes which trades'-unions are intended to fulfil. A royal commission, after a most elaborate investigation, has lately made a report upon trades'-unions. From this report and other sources of information the following conclusions may be deduced:—Trades'-unions serve two distinct purposes. In the first place a trades'-union performs the ordinary functions of a friendly society. A member of one of these societies is assisted, when thrown out of work, either by illness, or by the stagnation of trade. It is not here necessary further to discuss the effects of a trades'-union, when it is simply used for the charitable purposes just indicated. But a trades'-union is always something more than a friendly society, its chief purpose is generally to organise the workmen of a particular trade into a combination, sufficiently powerful to enforce various regulations, both upon masters and men.

A trades'-union can only raise the wages of a particular trade by limiting the number of workmen.

The promoters of trades'-unions seem distinctly to understand that the most effective way to raise the wages in any particular trade, is to restrict the number of labourers who are employed in it. Consequently many of the rules of these societies are framed with the specific object of artificially limiting the supply of labour. Thus some trades'-unions will not permit a master workman to take more than a certain number of apprentices. In the hat trade the number is limited to two. If the union has sufficient power to enforce obedience to its mandates, any restriction which limits the number of those brought up to the trade must exert a direct influence to raise the wages which are paid in this particular branch of industry. For suppose that those who are engaged in the manufacture of hats were freely permitted to take as many apprentices as they pleased, the number of journeymen hatters in the country might be very much increased. Let it be assumed that there would be twenty per cent. more journeyman hatters than there are now; under these circumstances, there would be a greater number of labourers competing for employment in the hat trade, and their wages would consequently be reduced. The saving resulting from the lower wages will ultimately benefit those who purchase hats, because the price of hats would be reduced. The hat manufacturers would not be able to appropriate to themselves the saving which would accrue from the payment of a less amount in wages, because, when the cost of producing any commodity is reduced, its price is sure to be lowered in a corresponding degree, since people engaged in the same trade compete against each other for as large an amount of business as possible; and in their anxiety to undersell one another, they offer their commodities at a price just sufficiently in excess of the cost of production to leave them the profit ordinarily realised in trade. It therefore appears, that those who purchase any commodity are compelled to pay a higher price for it, and that the wages of the labourers engaged in its manufacture are artificially raised when restrictions are imposed which limit the number of those who are permitted to be employed in the particular trade.

Such limitations are indefensi-

These restrictions can on no grounds be defended; in the first place, any such interference with the distribution

of the labour of the country, amongst its various branches of industry, introduces many most mischievous inequalities. The labour of which some employments are compulsorily deprived is thrown, as a burdensome surplus, upon other branches of industry; and the wages in some employments are consequently as much depressed as the wages in others are raised. The members of a trades'-union, when they usurp such powers, virtually confiscate to their own advantage a portion of the wages which would be paid to other classes of labourers, if industry were unshackled by such arbitrary rules. Although this injustice is striking, yet there still remains to be described a much greater wrong, which is inflicted upon those who are prevented by a trades'-union from following the employment they would select, if left to their own free choice. There is no right to which all men and women have a more indefeasible claim, than absolute freedom to follow those pursuits in which they think they are best qualified to succeed. The laws of a free country ought to secure to every one this right; for, if it is denied, individual freedom at once ceases to exist. Such a right is denied, if a person is excluded by a trades'-union from following a particular employment. It is no excuse for the members of the union to say—Our trade is already overcrowded, wages are too low in it, and it would be disastrous if they should be still farther reduced by an increase in the number of those applying for employment. Every man has a right to judge of such things for himself; he may wish to engage in the trade, because he has a particular capacity for it, and if he is arbitrarily driven to some other employment, he is deprived of the advantages of the skill with which nature has endowed him. It would therefore seem, that trades'-unions may inflict upon labourers great social tyranny; it is not the labourers who alone suffer, for every class of the community is more or less injuriously affected. These trades'-unions may imperil the very existence of an industry in any particular district: for the various restrictions imposed upon employers may so much increase the cost of a commodity, as to render it impossible for them to compete against others in the same trade, whose operations are not similarly impeded. Examples may be quoted which prove that some branches of

ble on any ground.

They injuriously affect all classes,

and drive away trade:

Instance of Birmingham

industry have been driven from certain localities by trades'-unions. These societies have long been very powerful in Birmingham, and their efforts were at one time chiefly directed against the introduction of machinery. These efforts were in a great degree successful, and consequently, when steam began to be generally applied, those trades which required much machinery settled in other localities, and the manufacturers of Birmingham are to this day in a great degree confined to those branches of industry which require comparatively a much greater amount of manual labour than machinery. Another example may

and Sheffield,

be furnished by Sheffield. In this town, during the last few years, many most dreadful outrages have been perpetrated upon artisans who have refused to join the trades'-unions. When these societies usurp such powers of social tyranny, they are sure to practise coercion upon the masters, attempting to control them in their business arrangements by all kinds of vexatious restrictions. The trade of Sheffield thus trammelled must inevitably decline; for although the place has special advantages for the industry which there flourishes, yet other localities, where masters and men are permitted to act as they please, will be able to compete successfully against Sheffield. In corroboration of this opinion it may be stated, that a successful steel manufactory has already been established in Manchester, and its promoters openly confess that they have been induced to select Manchester, in order that they may escape the influence of the trades'-unions of Sheffield. If, moreover, these societies should increase in numbers and in power, so as gradually to embrace a large majority of the working classes, the industrial prosperity of the nation might be seriously jeopardised, since various branches of industry might not only pass from one locality to another, but might even leave the country. For we cannot compete with foreign countries if our manufacturers are to be dictated to by their workmen with regard to the use of machinery and the conduct of business.

by means of exercising a social terrorism.

It may perhaps be asked, How can these trade societies exercise the influence they do, when everyone is aware that the coercion they practise is not based on any legal sanction? No one can doubt that the members of a trades'-union commit a criminal act, if they attempt, in the slight-

est degree, to interfere with any individual who does not belong to their society. It would therefore appear, that social terrorism is the source of their power; for although such outrages as those committed at Sheffield are exceptional, yet a non-union man is subjected to so many petty annoyances that his life not unfrequently becomes a burden to him; and employers are coerced in a similar manner, if they do anything contrary to the rules of a trades'-union. Thus if a master engaged in some business, such as wool-stapling, where the trade society is all-powerful, employs non-society men, all his labourers who belonged to the trades'-union would at once refuse to work for him, and he would in this way be subject to great loss and inconvenience.

The connection between trades'-unions and strikes is intimate, though not necessary.

It is not, however, these regulations concerning the internal arrangements of a trade, which have caused so much public attention to be directed towards trades'-unions during the last few years; the interest excited in these societies has been in a great degree due to their connection with strikes. The trades'-unions have, in fact, endeavoured to regulate wages, and they apply their organisation to compel employers to agree to their demands. If, for instance, it is proposed to reduce the wages in some particular branch of industry where the majority of the men employed belong to a trade society, then, if the leaders of the society consider that the reduction ought not to be made, they issue an order that work should be discontinued rather than accept the reduction. If the reduction is still insisted on by the employer, the immediate consequence is a turn-out of the workmen, or, in other words, a strike. Now it is evident that a trades'-union need not necessarily have the slightest connection with a strike; even if trades'-unions did not exist, strikes might still be of frequent occurrence. A strike implies a combination amongst a large number of workmen, and such a combination is not possible unless a considerable majority of those engaged in any trade agree to act in unison. Such combined action as a strike requires cannot therefore exist unless the workmen submit to be governed by an organisation. The trades'-unions supply this organisation, without which there cannot be complete unity of action. It is quite possible, however, to

conceive that a trades'-union may prevent a strike, and many of these societies have, as yet, never been connected with a strike; still, as long as a great number of workmen in this country are warm advocates of the system of strikes, it is quite certain that trades'-unions and strikes will be intimately connected together.

Question whether combinations of workmen can raise wages.

Since a strike requires combination, we have to inquire, when investigating the effect of strikes, whether workmen by combining can obtain higher wages. It can scarcely be disputed that they possess a perfect right to combine. The right may be, and has been, abused; then, of course, it ceases to be justifiable; but if employers are freely permitted to invest their capital to the greatest possible advantage, the employed may equally claim to be allowed to obtain the highest wages they can for their labour. If, therefore, any number of them choose to form themselves into a combination, and refuse to work for the wages which are offered to them, they are as perfectly justified in doing this as capitalists are when they refuse to embark their capital because the investment offered is not sufficiently remunerative. Workmen, however, do an illegal and most mischievous act, which ought to be punished with the utmost rigour, if they attempt to sustain the combination by force, or if they coerce individuals to join it by threatening to subject those who keep aloof either to annoyance or personal violence. Workmen have sometimes maintained their combinations, not only by acts of violence, but also by various kinds of social terrorism. Justice obviously demands that the blame which attaches to such actions should not be borne by those who never abuse the power of combination.

The great majority of intelligent artisans are in favour of trades'-unions.

An increasing number of the intelligent artisans of this country each year become more decided advocates of trades'-unions. The influence of these societies is rapidly extending in other countries; it is therefore very important to ascertain the effect exerted upon wages and upon the general condition of the labourer by a legitimate use of the power of combination.

In making this investigation it is essential to keep clearly in view the fundamental distinction between the permanent and temporary consequences which arise from the operation of an economic agency. In every branch of industry there is a certain position of equilibrium to which

profits and wages have a tendency to approximate. A long time however may be required to restore wages and profits to this position of equilibrium. Thus the woollen trade cannot permanently continue very much more profitable than the cotton trade, because the competition of capital would gradually induce capital to be invested in the one trade and withdrawn from the other. Competition cannot exercise this equalising force instantaneously; it takes, for instance, a considerable time to erect new woollen mills, and there will be always much hesitation before men will relinquish such a business as the cotton trade, to which they have been accustomed. Hence, one branch of manufacture may continue for many years exceptionally prosperous, whilst in some other business there may be a corresponding depression.

The effect of competition is gradual not immediate.

Competition exerts a similar equalising influence upon wages. If wages in one branch of industry are exceptionally high, whilst in some other they are exceptionally low, labour will be gradually attracted to the business in which the high remuneration is given, and will be withdrawn from the business in which the remuneration is less than the average. But here again time is required for carrying out this equalising process. Labourers will rather submit to some temporary loss than change their occupation. A considerable expense will also be incurred, if a man has to change his residence in order to obtain a new employment. In some cases it happens that such obstacles as these neutralise the force of competition, not temporarily, but for an indefinitely long period. For instance, the wages of agricultural labourers in some localities are permanently depressed below the average rate. The reason of this is, that the force which competition would exert to advance these wages is neutralised by the labourer being prevented through ignorance and poverty from resorting to those localities where wages are higher. These general remarks enable us more exactly to determine the influence which can be exerted upon the condition of the labourers by the power of combination.

Under some circumstances the force of competition is neutralised for an indefinitely long period.

If competition acted instantaneously, or in other words, if profits and wages in every branch of industry were always at their natural rate, it might be at once concluded that the power of combination could exercise no effect

If competition acted instantaneously, combination

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would have no effect on profits and wages.

either upon profits or upon wages. Suppose, for instance, that workmen by resorting to a strike obtained an advance in wages. This advance would be of no benefit to them, if the competition of other labourers, anxious to participate in this advance, could immediately produce its equalising effect. No conclusion of any practical value can be arrived at on the subject unless the mode in which competition acts is kept steadily in mind. In all those branches of industry in which the competition of labour and capital freely acts there cannot be secured any permanent increase in profits or wages, by a combination either of employers or employed. It has, however, been previously remarked that in some cases the equalising effect of competition is neutralised through an indefinitely long period. This occurs with regard to agriculture, in those countries where wages are the lowest. When a branch of industry is in this position, there can be no doubt that labourers might by combining secure a permanent advance in wages. Suppose, for instance, that Dorsetshire labourers, earning only ten shillings a week, received so much extraneous assistance that they were able to maintain a prolonged strike. The farmers, under such circumstances, would almost inevitably be vanquished in the struggle. They would be ruined if their land remained uncultivated, and since the wages previously paid were minimum wages, it would be impossible to obtain labour from other localities unless a higher remuneration were offered for it. It is scarcely, however, probable that the power of combination will be the agency by which the wages of our worst paid agricultural labourers will be advanced. When these labourers become sufficiently intelligent to form combinations, various other agencies, such as migration and emigration, will be brought into operation to raise wages. It now remains to investigate the influence which a power of combination may exercise upon wages and profits, during the time which always elapses, before competition can produce its equalising effect.

The effect of a trades'-union upon the wages of agricultural labourers described.

Wages are fixed in the same way as a bargain, carried on

When men labour simply for hire, it is manifest that the adjustment of wages is analogous to the bargaining which is carried on by the buyer and seller of a commodity. Although it is no doubt true, that the price, at which a commodity is sold, approximates to the cost at

which it can be produced and brought to market, yet the price at which it is actually sold is often to a considerable extent influenced by various circumstances which may happen to place the buyer in either a better or worse position for bargaining than the seller. In a similar way wages ultimately depend upon the amount of capital and upon the number of labourers; yet the wages, which, at any time, are paid in a certain trade are to a considerable extent influenced by the relative advantages possessed by employers and employed for carrying on the bargaining, by which wages are adjusted. The question therefore arises, Will workmen by combining, or by showing that they have the power to combine, improve their position in carrying on this bargain?

by the buyer and seller of a commodity.

Do combinations improve the position of the parties to this bargain?

It is well known that employers in various trades frequently act in combination. For instance, the iron-masters in the midland counties hold quarterly meetings at which a scale of wages and prices is fixed. Every iron-master considers himself bound to conduct his trade in strict accordance with the scale agreed upon. If any one should disobey the decision of the meeting, he would subject himself, not indeed to personal violence, but to a social terrorism very analogous to that by which trades'-unionists so frequently maintain their organisations. The recalcitrant iron-master would be abused by his fellow employers, and very probably an effort would be made to ruin one whose conduct was supposed to be injurious to the interests of his class. It is impossible fully to understand the effects resulting from combinations of workmen unless it is remembered that similar combinations are formed by their employers.

Combinations exist among employers.

Let it be supposed that the iron-masters at one of their meetings decide, in consequence of a prosperous state of trade, to advance wages 10 per cent. The iron-masters, who like other people are liable to mistakes, may not have made such an advance in wages as the state of the trade would fairly admit. Wages might have been raised 20 per cent., without unduly trenching upon profits. A labourer impressed with the conviction that an advance of 10 per cent. is not sufficient, demands something more from his employer. The employer who has entered into a compact with others of his class, as to the wages which

An example of the effect of combinations upon wages.

shall be paid, must at once feel the advantageous position he occupies in resisting the demands that the labourers make upon him, if they have no organisation for combined action. He knows that if any of them refuse to work for him, they will be unable to obtain higher wages from other employers in the locality; because by previous agreement a uniform rate of wages prevails. A labourer has seldom saved sufficient to be able to maintain himself for any length of time without work; he makes a great sacrifice if he seeks another occupation to which he is unaccustomed, and especially at a time when his own trade happens to be exceptionally prosperous. It therefore appears, that the bargaining which often goes on in adjusting wages, implies a struggle, or a conflict of effort between employers and employed; in this conflict a great advantage will be possessed by those who can act in concert, over those who simply act as isolated individuals. The truth of this will be more distinctly perceived by considering what would occur if, in the case just described, the labourers combined to make a demand for a greater advance in wages. Assume that in the iron trade there is a powerful trades'-union; that all the labourers in the district belong to it, and that they are as well organised as their employers. The representatives of this trades'-union would feel that they were placed in a position of equality with their employers, when making a demand for higher wages; the employer also would know that as a last resource a strike would be agreed upon. This would bring business to a standstill, and thus trade would be suspended when it was very prosperous, and when exceptionally high profits were being realised. The loss and inconvenience thus inflicted upon employers would be a strong inducement to them to yield to the demand of their labourers if it could be fairly conceded. Each party to the bargain would thus be placed in a position of equality when arranging its terms.

Bargaining implies an antagonism of interest.

Another example.

If the employed do not combine, they are not in a position of equality with their employers.

In the example just investigated it has been implied that the employers do not, in the first instance, offer an adequate advance in wages. It often, however, happens that the labourers err on their side, and insist upon wages which cannot be fairly conceded. The only security against such errors is the serious loss inflicted both on masters and men by trade disputes. It is difficult adequately to esti-

mate the loss which is caused to each party by such a suspension of business. The employers not only have a vast amount of capital lying idle, but a very considerable portion of their trade may permanently pass away to other localities. When business is recommenced many of their former labourers have left the district, and their places have to be occupied by inferior workmen. During a strike labourers often endure the most severe hardships; the savings of many years are spent, and so acute is the distress, that even household furniture has sometimes to be sold. All this suffering is aggravated by the losses inflicted on the employers, because if a great amount of capital is sacrificed in the conflict, the wage-fund will be diminished, and less will remain to be distributed in wages when work is resumed.

The loss described which a strike inflicts both on employers and employed.

There can be no doubt that in the majority of strikes the masters have been sufficiently powerful not to concede the demands of their workmen. Not only do the superior resources of the employer enable him to carry on the struggle for a longer period, but workmen are generally such unskilled tacticians that they usually strike, not to secure an advance in wages, when trade is prosperous, but to prevent a reduction when trade is depressed. In times of depression a temporary suspension of business may very possibly be rather an advantage than a loss to employers. Consequently at such a time the prospect of a strike implies by no means so formidable a threat as when trade is active.

From the tenor of these remarks it appears that strikes are inseparably associated with our present economic system. As long as the relations between employers and employed continue to be analogous to those existing between the buyer and seller of a commodity, it must often happen that the one party will refuse to accept the price which is offered by the other for labour; if the refusal is persisted in, a strike inevitably ensues. When strikes are regarded from this point of view it is as hopeless to expect that legislation can prevent them, as it is to suppose that merchants could be compelled to sell their goods if an inadequate price were offered for them. Something may no doubt be done by conciliation and arbitration, either to obviate or to render less frequent the trade disputes arising

Strikes are inseparable from our present economic system. Because, as long as wages are settled in the same way as a bargain, it must often happen that one party will refuse to

accept the price offered by the other. Conciliation and arbitration though useful, do not remove the cause of these disputes.

between employers and employed. A master who exhibits great personal interest in his workmen's welfare, is generally able amicably to settle any difference which arises in his business upon a question of wages. Experience has also shown that the establishment of courts of arbitration often enables trade disputes to be arranged, without recourse being had to the disastrous expedient of a strike. The efficiency of these courts depends to a great extent upon making a wise selection when choosing an Umpire. It is usual for the employers and employed to have an equal number of representatives in these courts of arbitration. The ultimate decision has therefore sometimes to be made by the Umpire or Referee, who must be a person absolutely unsuspected of any bias towards either party in the dispute.

Such expedients as personal conciliation and courts of arbitration, although exerting a most useful influence, do not provide a completely efficient remedy for strikes. These disputes must be regarded as the natural outgrowth of the existing relations between employers and employed.

Strikes can only be effectually prevented by removing the antagonism of interest between employers and employed.

In order to obtain a complete remedy for strikes, it will be necessary to remove the antagonism of interest now existing between employers and employed. Some plan must be adopted, which will make masters and workmen feel that they have an identity of interest. It is no doubt true that all those who are engaged in any business have a common interest in its prosperity; but the grave defect connected with our present economic arrangements is this, that the amount of advantage or disadvantage which is derived from prosperous or adverse trade by employers and employed is not arranged according to any definite plan, but is too frequently settled in an angry struggle of rival pecuniary interests.

This can be effected by copartnerships of industry. The principle of copartnership defined.

Various schemes have already been tried with remarkable success which correct the defect just alluded to, and which introduce a copartnership between masters and workmen. These schemes are based upon the general principle, that labourers should not work simply for hire, but should participate in the profits which are realised by their industry. It has been previously shown that the power of combination enables workmen more surely to participate in the profits realised in times of active trade. From this it would appear that the power

of combination establishes, as it were by force, a copartnership between employers and employed.

If this fact should obtain general recognition it may be confidently anticipated that the principle of copartnership will be generally introduced into our industry. In order to show that there are no practical difficulties opposing its introduction, which cannot be ultimately surmounted, we will proceed to describe some of the cases in which it has been applied.

Some examples of the successful adoption of copartnership.

One of the first and most valuable experiments was made by M. Leclaire, a house decorator in Paris. The experiment, though well known, is particularly important, because its results have been verified by the most accurate testimony. M. Leclaire employed about 200 workmen, and the carelessness and apathy of his men subjected him to constant loss and annoyance. He therefore resolved that he would endeavour to make the labour of his men more efficient by giving them some pecuniary interest in the work in which they were employed. He consequently assembled them together, told them that he would continue to pay them the customary wages of the trade, and at the end of the year would distribute amongst them a certain share of the profits which had been realised. M. Leclaire affirms that the plan was eminently successful, and that he was in a pecuniary sense abundantly recompensed for the share of his profits which he gave to his workmen.

As another example, it may be mentioned that the Paris and Orleans Railway Company distribute a certain portion of the profits realised amongst the working staff of the railway, and it is unanimously affirmed by the Directors that the plan succeeds admirably.

The benefit extends both to employers and employed.

The fact that M. Leclaire has been abundantly recompensed for the share of profits allotted to his workmen, deserves particular attention. It shows that co-partnership does not require from the employer any sacrifice on behalf of his workmen, but, on the contrary, that both are equally benefitted. The efficiency of labour and capital must evidently be greatly increased, by improving the relations between employers and employed; and when labour and capital become more efficient, there is more to distribute both in wages and profits. The error is not unfrequently committed of supposing that the share of profits allotted

to labour represents so much abstracted from the returns of the capitalists. The Royal Commissioners, who lately reported upon trades'-unions, failed to appreciate the advantages resulting from copartnership, because they assumed that the share of profits received by the labourer was so much taken from his employer. If this were so, no particular benefit could attach to the system, because there would be no identity of interest established, if what was gained by the labourer were lost by the capitalist. The fundamental advantage of these schemes arises from the circumstance that the benefit they confer is mutual; the share of profits received by the labourer is a measure of the gain secured by the employer, as a consequence of the additional efficiency given to labour and capital by introducing harmony, where before there was antagonism and rivalry of interest. Some idea may be formed of the enormous saving which might thus accrue. Not only would the loss inflicted on industry by strikes and lockouts be avoided, but a vast amount of waste would be obviated. Employers constantly complain of the loss they sustain from the listlessness and apathy of their workmen. A heavy outlay has to be incurred in overlooking labourers, in order to see that work is not shirked. In some branches of industry it is impossible to obtain anything like an adequate supervision; the labour is too much dispersed. This is particularly the case with agriculture, and to such a business copartnership could be applied with maximum advantage. It can be confidently asserted that a farmer would largely increase his own profits if he consented to allot to his labourers some portion of his profits. After paying them the current wages, and setting aside a fair amount, as interest upon capital and as remuneration for his labour of superintendence, he might agree to distribute amongst his labourers a portion, say one half, of any extra profits that might be realised. Each labourer's share of this bonus being determined by the aggregate amount of wages he had earned, the most would consequently be obtained by those who were the best labourers. Such an arrangement would powerfully stimulate the industrial energy of the labourer who is now proverbially slow in his movements and apathetic in his work because he has no inducement, except when engaged in piece work, to exert

Some of the collateral advantages of copartnerships.

The industrial partnership, established by the Messrs. Briggs, described.

himself more than he is absolutely obliged. Other plans of industrial partnership have been adopted which secure a more complete union between capital and labour. During the last few years the practice has been rapidly extending not only of allotting to workmen a share in profits, but also of allowing them to invest capital in the business in which they are employed. One of the most remarkable experiments of this kind has been tried with eminent success by the Messrs. Briggs, who are large colliery proprietors at Methley, near Leeds. Probably in coal mining more than in any other industry, disastrous disputes between employers and employed have been of frequent occurrence. Mr. Briggs was so harassed with these disputes and was suffering such severe pecuniary loss from repeated strikes that he determined, a few years since, to relinquish his business. Upon announcing this intention, one of his sons advised him to try the expedient of establishing a copartnership between capital and labour. With the view of securing this copartnership the following plan was adopted. The business was converted into a joint-stock company, the capital of which, £135,000, was raised by 9000 shares of £15 each. The Messrs. Briggs retained two-thirds of the whole number of shares, and the remaining one-third was first offered to those employed at the mines. The workmen have on the directory some of their own body to represent them. It is further arranged that when the profits exceed 10 per cent. after setting aside a fair amount to reimburse capital, one-half the remaining surplus should be distributed amongst the labourers, and that each individual's share of this bonus should be proportioned to the aggregate wages which he has earned. A most satisfactory cooperation between capital and labour is thus secured. The Messrs. Briggs, who are men of great practical experience, affirm that the plan even as a commercial experiment has proved eminently successful. They say with great truth, that labourers who own the capital and participate in the profits realised, will never resort to strikes, and those unfortunate disputes which have recurred with such disastrous frequency in the coal trade will thus be prevented. The Messrs. Briggs also state that labour in a coal mine can never be properly superintended; the portion of profits distributed as a bonus

amongst the labourers stimulates their energy, and their industry has thus become much more efficient. In this case, it will be again perceived, that the portion of profits allotted to workmen does not diminish, but on the contrary, greatly increases the gains of the employer. From this circumstance it may confidently be hoped that these copartnerships will so rapidly extend as to fundamentally change the economic relations now existing between employers and employed. There can be no doubt, as was remarked in the last chapter, that the movement will be powerfully promoted by national education; for all these schemes which have been described require men to repose a certain amount of trust in each other; distrust and suspicion are always prominent characteristics of a low state of intellectual development.

The progress of copartnerships will be greatly promoted by national education.

Ultimately it may be hoped that there will be so much moral and social advancement as to enable a perfect union between capital and labour to be established: this is secured when labourers supply all the capital which is required to sustain the industry in which they are engaged. When this is accomplished there is cooperation in its highest form; the subject of cooperation is of so much importance that it will be necessary to devote a separate chapter to its consideration.

CHAPTER X.

ON COOPERATIVE INSTITUTIONS.

Importance of the co-operative principle:

VARIOUS plans and schemes for obtaining a different distribution of wealth are constantly supported, with more or less favour, by the labouring classes. In the last chapter, we described two of these plans; namely, trades'-unions and strikes; and we endeavoured to trace the evils and the benefits which they might confer upon the labouring classes. During the last few years the rapid extension of cooperative institutions has excited as much attention as trades'-unions and strikes. In the last chapter we had to refer to much that was unsatisfactory and distressing; we, however, discuss the subject of the present chapter with unmixed pleasure, because wherever the principle of cooperation is carried into practical effect, the labourers enjoy a far more favourable distribution of wealth.

it implies a union between capital and labour.

It has been frequently stated, that wealth cannot be produced without the application of capital and labour; the economy of our country is such, that the capital and labour are seldom supplied by the same individuals. Hence wealth is in this country usually produced by the exertion of two distinct classes, who are called employers and employed. The wealth, therefore, which is produced by their joint exertions belongs to them, and is distributed between them. The employers supply the capital, and the share which they obtain is termed their profits; the remaining share is apportioned in the form of wages to the employed, who supply the labour. The amount

of these shares is regulated by definite laws, which primarily depend upon a ratio between capital and population. But although such may be regarded as a description of the present economic condition of this country, yet it is manifest that there need not necessarily be two distinct classes termed, respectively, employers and employed. The labour and the capital required to produce wealth might be provided by the same set of individuals. If this were done, those who labour would enjoy as their own property all the wealth that was produced, because no portion would have to be allotted in the form of profits to a different set of individuals who supply the capital. It is therefore manifest, that if the capital required in any industry is supplied by the labourers who are engaged in it, employers and employed are then merged into one class, and capital and labour are said to cooperate. Such an union of capital and labour is the principle of co-operation.

Origin of the co-operative movement in England.

We will, in the first place, describe the origin and growth of the cooperative movement in England; such a description will throw much light upon the exact nature and scope of the benefits to be derived from cooperation. Like many other social movements that afterwards have assumed permanent importance, the principle of cooperation was first carried into practical effect in this country in a form so humble as scarcely to attract a passing notice. Probably the extension of cooperation has been so extraordinary, because its development has been assisted by no extraneous aid. The cooperative movement in England

Rochdale.

was first commenced in Rochdale. About the year 1844, a few working men in that town suspected, and no doubt justly so, that they were paying a high price for tea, sugar, and other such articles, which they at the same time believed were not free from adulteration. They

Cooperative store.

therefore said, 'Why should we not club together sufficient, amongst ourselves, to purchase a chest of tea and a hogshead of sugar from some wholesale shop in Manchester?' This they did, and each one of their number was supplied with tea and sugar from this common stock, paying ready money for it, and giving the same price for it as they had been charged at the shops. When all the tea and sugar had been thus sold, they agreed to divide the

money realised, amongst themselves, in proportion to the capital which each individual had subscribed. They did not expect to secure any considerable profit; the object they had in view was not so much to obtain a good investment, as to avoid purchasing adulterated articles. But they found, not a little to their surprise, that a very large profit had been realised. The great advantage of the plan became self-evident, for not only were they provided with a lucrative investment for their savings, but they obtained unadulterated tea and sugar at the same price as they had been previously obliged to pay for these same articles when their quality was deteriorated by all kinds of adulteration. A fresh stock of tea and sugar was, of course, purchased. Other labourers were quickly attracted to join the plan, and subscribe their savings; soon the society was sufficiently extended to justify them in taking a room, which they used as a store, and the success of the plan fully kept pace with its enlargement.

Progress of the Rochdale Pioneers.

In 1856, this society, now become famous as the Rochdale Pioneers, possessed a capital of about 12,900*l.* The business was not long restricted to articles of grocery; bread, meat, and clothing were all sold on the same plan. Their capital so rapidly increased, that they were soon enabled to erect expensive steam flour-mills; and a supply of pure bread, as well as unadulterated tea, was thus insured. During the last few years, this Pioneers' Society has attracted frequent public attention; for it has gradually grown into a vast commercial institution, embracing a great variety of trades. At the present time its capital is about 40,000*l.*, the annual amount of business done is nearly 250,000*l.*, and the profits realised upon the capital are 20 per cent. The general management of this society, and the mode in which the profits are distributed, are both most excellently arranged. A ready money system is so scrupulously adhered to, that even a large shareholder cannot make the smallest purchase on credit. The managers of the business are chosen by the general body of shareholders, and in almost every case a most admirable selection has been made. The accounts are made up quarterly, and placed before a general meeting. London accountants have audited these accounts, and they express an unanimous opinion, that no business in the country is

Their financial success.

better conducted. With regard to the distribution of the profits, a sufficient sum is first allotted to pay a dividend of five per cent. on the capital; the remaining profits are divided according to the following plan. Every person, when he purchases goods, receives one or more tin tickets, on which is recorded the amount of his purchases. At the end of every quarter, each person brings these tin tickets, which form a record of his aggregate purchases, and the remaining profits are distributed in proportion to the aggregate amount which each individual has expended at the store. Thirteenpence in the pound is the average amount which in this manner is received as a drawback.

Its causes.

We will now proceed to consider the causes which have contributed to the remarkable financial success of this co-operative society, and an explanation will then be given of some of the special benefits which such a society confers upon the labouring classes.

It is carried on on the ready money system.

The ready money system which is invariably adopted by these societies has probably promoted their prosperity more than any other circumstance. All bad debts are thus avoided, and when credit is not given, a certain amount of business can be transacted with much less capital than would be required if large sums were locked up in book-debts. Under a ready money system, the same capital may perhaps be turned over twenty times in the course of a year, and if one per cent. only is realised upon each transaction, the capital will secure an aggregate profit of twenty per cent. in the course of the year. When goods are sold for ready money, they can also be bought for ready money from wholesale dealers. This is always a guarantee that the purchases will be made on the most favourable terms. Again; the shareholders of the society form a nucleus of customers, and therefore, directly business is commenced, a certain amount of trade is insured. If an individual commences a business, he must attract customers, either by advertising, or by costly shop fronts; he is compelled to conduct his business in crowded thoroughfares, where rents are extremely high; but a cooperative society is saved all such expenses as these; its shareholders are its customers; it therefore need not advertise, it does not require a showy building, for its

A sufficient number of customers is secured.

position is rather in the centre of the homes of the labouring population. These and other advantages sufficiently account for the great profits which have been realised, not only by the Rochdale cooperative store, but by a great number of similar societies, situated in almost every part of the country*.

It has the disadvantage that the manager of the store is not sufficiently interested.

There are, however, some counterbalancing disadvantages, which it will not be advisable to pass by unnoticed. It is manifest that such a cooperative store or shop as that described resembles, in many respects, an ordinary joint-stock trading company. Many of the difficulties with which the joint-stock principle applied to trade has to contend were stated in a previous chapter; it is evident that many of the same difficulties may impede the progress of a cooperative store. For instance, the manager who is paid by a company is rarely so energetic, so skilful, and so generally efficient as the individual owner of a business. Self-interest stimulates the latter to exert himself to the utmost; but no such motive acts on one who is paid by a fixed salary. This difficulty has been often got over by making the remuneration of a manager depend partly on the profits realised; men are also occasionally found who will exert themselves as much when managing the affairs of a company as if they were conducting a business of their own. Some of the defects which belong to the joint-stock system are very curiously illustrated by the detailed accounts of the Rochdale store. It is shown, for example, that the business done at this store in grocery amounts to at least ten times the business done in articles of clothing; in every other cooperative society as great, or generally a greater disparity is shown in the amount of business transacted in the grocery and drapery departments respectively. There must be some cause for this inequality, for it incontestably proves that the labouring classes willingly purchase from a cooperative store all the grocery they require, whereas they generally prefer to buy articles of clothing from the ordinary retail shops.

This defect is illustrated by the superiority of the grocery store to the drapery store.

* A recent number of a monthly journal called the 'Cooperator' contains intelligence from Cooperative Stores in the following towns:—Aberdare, Banff, Blackburn, Burnley, Cleckheaton, Coventry, Dover, Hemel-Hempstead, High Green, Huddersfield, Hurstbrook, London, Manchester, Middleton, Newmarket, Norwich, &c.

The reason why they do this may be readily explained. A man, when purchasing an article of clothing, likes to employ his own taste and judgement in selecting it, and he is therefore glad to have as large a stock as possible to choose from; this he thinks he does not secure if he restricts himself to one single shop. The success, therefore, of a draper or clothier must mainly depend upon the skill with which he consults the tastes of his customers. He must consequently exercise the most constant vigilance with regard to all kinds of petty details, and this vigilance and care can seldom be expected from one whose full energy is not stimulated by feeling that he is the owner of the business. On the other hand, however, a person when purchasing grocery cannot exercise his own judgement, but is entirely in the hands of the grocer himself. What, therefore, is especially required when tea and sugar are bought is, the security that an unadulterated article is obtained. It is felt that this security can be had at a cooperative store; hence, when one of these societies is first established, its business should for some time be almost entirely restricted to selling grocery, and other articles of food. After a time, various other trades may with great advantage be embraced.

The importance of affording the working classes a good investment for savings,

The benefits which the working classes derive from a cooperative store are very apparent. In the first place, it provides them with the most eligible investment for their savings. This is most important, because the absence of good opportunities for investing small savings acts most powerfully to increase the improvidence of the poor. Even the middle and upper classes, whose superior education gives them prudence and foresight, are very much influenced in the amount they save by the profit which they believe would be realised on their capital. Hitherto the savings'-bank has been the only investment which, as a general rule, has been open to workmen. The ordinary English labourer must make many severe sacrifices to save 50*l.*, and if this amount is placed in the savings'-bank, the labourer obtains an annuity not exceeding thirty shillings a year, as his reward for self-denial and prudence. If old age or sickness compels him to cease work, his position is scarcely improved at all by the money which he had saved. If he had been improvident, and saved nothing, he would

have received parish allowance; but the poor-law guardians are simply required to grant just sufficient relief to enable a man to live; the labourer, therefore, who possesses an annuity of thirty shillings a year will obtain from his parish, if he requires relief, thirty shillings a year less than the man who has recklessly spent everything that he has received. Under these combined discouragements, it is not surprising that our labouring classes have been extremely improvident. No labouring man, in fact, has ever had definitely placed before him the prospect that he would be able himself to employ his savings as capital, and enjoy the profits arising therefrom. Our labourers, therefore, could never be cheered with the hope of improving their social position, for they must have seen that at least 99 out of every 100 of those whose parents are hired labourers, always remain in the same condition. It is evident that, as far as the investment of money is concerned, such cooperative stores as those described afford the labouring classes opportunities for obtaining profits which they never possessed before. It will moreover be presently shown that the cooperative principle, when applied to trade and manufactures, enables the labourer to support his industry with his own capital, and in this manner to rise from the mere status of a hired labourer. The figures we have already quoted sufficiently prove the eligible nature of the investment which is provided by a well-managed cooperative store; for the profits realised at the Rochdale store not only provide a dividend of five per cent. on capital, but also enable a drawback of 1*s.* 1*d.* in the pound to be paid, on the amount of each customer's purchases. The labourers, moreover, obtain unadulterated articles at the ordinary retail prices. They are also in another way greatly benefited by dealing at a cooperative store, for these establishments give no credit; nothing has been a greater bane to the working man than the facility with which he is permitted to get into debt. He is thus encouraged in extravagance, and the shop to which he is indebted has the power to extort from him very high prices, for inferior articles.

and thus giving them the means of rising in position.

Other advantages of cooperative stores.

The labourers derive from these cooperative societies other advantages of no less importance than those pecuniary benefits which have just been described. There can

The promotion of a healthy social intercourse.

be no doubt that these societies promote a most healthy social intercourse between workmen; for at frequent meetings the shareholders consult each other upon matters of business; they have to show their discrimination in selecting the proper persons to be managers; and, in fact, the experience of the Rochdale store proves, that a co-operative society can succeed in carrying out many social improvements which would not otherwise be introduced. Thus two and a half per cent. of the profits realised at Rochdale support an excellent reading-room and library, which the shareholders, as well as their wives and families, are permitted to use gratuitously; the society organises excursions, and often performs some united work of charity: not long since, its members presented a handsome drinking-fountain to their fellow-townsmen. A cooperative store may, moreover, become a particularly powerful agent in benefiting the working classes, because it can be conducted on the smallest possible scale. The experiment can be made without involving any expense; any half dozen working men may try the plan as it was tried in 1844 at Rochdale, by clubbing together sufficient to purchase a chest of tea from a wholesale grocer. If they find their first efforts are successful, they may gradually develop their plan, until at length it becomes a great and important trading establishment.

Distinction between co-operative stores and cooperative trading establishments. The former ought not in strict accuracy to be termed cooperative.

At the commencement of this chapter it was stated that cooperation denotes an union between capital and labour; consequently strict accuracy would demand that only those societies should be termed cooperative in which the capital that a business requires is provided by the labourers engaged in it. At the Rochdale Pioneers' store, and at all the other cooperative stores, the public are freely permitted to become customers. A considerable portion of the profits is distributed among the purchasers of commodities, who do not necessarily own any portion of the capital embarked in the business. Those who are employed in these stores are frequently only hired labourers who do not participate in the profits realised. It is therefore evident that in such an establishment as the Rochdale Pioneers, the cooperative principle is most imperfectly applied. In these cooperative stores the profit realised upon the distribution of commodities is secured by those who purchase

them. In a trading establishment conducted upon pure cooperative principles, all the profit realised upon the production of commodities is appropriated by the labourers who produce these commodities. It is very necessary that the distinction between a cooperative store and a cooperative trading establishment should be carefully observed. The reasons which render this distinction important will be better understood when a description has been given of some cooperative trading societies. The first establishment we intend to describe is a society of cooperative masons which was founded in Paris in the year 1848. This society was reproached for holding certain political opinions, and the government attempted to discourage it by refusing to it any loan of capital. This hostility insured its future success; for the societies which were assisted by the government, in almost every instance, proved to be failures. The cooperative masons endured many vicissitudes, and in the year 1852 they determined to reorganise their society. It then consisted of only seventeen members, and possessed no capital. They resolved to create a capital, by depositing in a common chest one tenth of their daily earnings. At the end of the first year a capital of 14*l.* 10*s.* was in this manner created. At the end of the year 1854 the capital had increased to 680*l.*; and in 1860 the society consisted of 107 members, and the capital possessed by them was 14,500*l.* The following are some of the important buildings which have been constructed in Paris by this society—The Hôtel Fould, in the Rue de Berry; the Hôtel Rouher, in the Champs Elysées; the Hôtel Frescati, Rue de Richelieu; the Square d'Orleans, Rue Taitbout, &c. These cooperative masons have also erected Mansions for M. Girardin on the Boulevard of the King of Rome; for M. Arsênne Haussage, on the Boulevard de l'Empereur; and for M. Pácotte at Montrouge. No labourers except the shareholders are employed by this society. The labourers are paid the ordinary wages current in the trade, and the nett profits realised are apportioned in the following manner:—two fifths of these profits form a fund, from which the annual dividend on capital is paid; and the remaining three fifths are appropriated to provide an extra bonus on labour. The bonus which each labourer thus receives

Paris society of cooperative masons.

The secret of their success.

is proportioned to the amount of labour he has performed throughout the year. No arrangements that could be devised would more powerfully promote the efficiency of labour. This is the secret of the remarkable success achieved by this society. The cooperative masons have fairly entered into the great field of commercial competition; they have striven to do their work cheaper and better than others; and it is because they have proved that they can work better and cheaper that they have been employed to build residences for such persons as M. Girardin, and the others we have enumerated. Another cooperative trading society may with advantage be described, in consequence of the remarkable circumstances which attended its formation. In 1848, fourteen pianoforte makers of Paris resolved to form themselves into an association. They were as poor as men could be; they had no capital, and scarcely any tools, and they were also refused any loan from the State. After bravely enduring the most severe hardships, they succeeded in saving 45*l.*; with this they determined to commence business. They at first rented a very small room in an obscure part of Paris. Fortunately a timber merchant was so much impressed in their favour, that he was induced to give them some credit. For many months they denied themselves every luxury; in fact it was impossible to live on more scanty or frugal fare. One incident will illustrate the difficulty of their position. They joyfully accepted an offer from a baker to purchase a piano for 19*l.*, and to pay them for it in bread. This bread was for a considerable time their chief means of support. All obstacles were however, one by one, surmounted; and their progress, though gradual, was steady and sure. In 1850 the members of the society increased to 32; they had left their first humble room, and were then renting a commodious building, at 80*l.* a year; at this time their stock was worth 1600*l.* Within the last few years they have become the owners of a large freehold manufactory, which is furnished with the most improved machinery; the business which they now annually transact exceeds 8000*l.* This Pianoforte association has obtained a well deserved reputation for the excellence and cheapness of its work.

The cooperative pianoforte makers.

Advantages of co-

The figures which have been just quoted prove the

great pecuniary advantages which the labourers derive, if they are enabled, by forming themselves into associations, successfully to carry on trading operations. It will be instructive somewhat further to analyse the benefits which are thus conferred. In the first place, it may be observed, that the labourers receive the whole profits which result from their industry, because they themselves supply the capital which is required. Another most important effect seems likely to result from these associations, for they appear to hold out a fair prospect of correcting a very discouraging tendency, which is associated with the present rapid accumulation of wealth. It has previously been remarked, that each year the production of wealth is conducted on a greater scale; manufactories are enlarged, farms are extended in area, and in every branch of industry there are those who seem, from the very vastness of their capital, to monopolise additional profit, and thus compel the smaller producers to succumb. Hence each year it becomes more difficult for the labourer to engage in any industry on his own account. Some centuries since, an agricultural labourer might hope, by ordinary prudence, to occupy one of the small farms into which the land was then divided. Within recent times a great portion of the manufacturing industry of the country was carried on in the cottages of the hand-loom weavers. A hand-loom weaver might readily supply the capital which his industry required, for it was only necessary for him to purchase an inexpensive apparatus, and a small quantity of raw material. But agriculture, manufactures, and every other branch of industry now require expensive machinery, and cannot successfully be conducted without large capital. Hence the industry of the country must be conducted by two distinct classes, namely, employers, who supply the capital, and workmen, who provide labour; unless those who labour agree to form themselves into associations, and subscribe amongst themselves sufficient capital to carry on production upon a large scale. It is quite evident, that cooperative trading establishments, when successful, intensify many of the advantages which labourers derive from cooperative stores. But these two classes of institutions have been separately described because the success of the former may be imperilled by

operative trading establishments.

They tend to neutralise the growing advantage of large capitalists over small.

They are, however, liable to many diffi-

culties which do not affect cooperative stores.

many circumstances which do not affect the latter. In fact, it has been already stated that, in the case of a co-operative store, success may be almost guaranteed. A certain number of customers are secured before business is commenced; the expenses are extremely small, no credit need be given, and therefore the operations can be extended and contracted, and consequently no great loss need ever be incurred by a temporary falling off in the business. But the case is very different with regard to a cooperative society carrying on some branch of industry for profit. When this is done, every one engaged in the same trade or manufacture is competing for profit. Let us therefore enquire, whether a cooperative trading society enters into the competition with any particular advantages or disadvantages.

Disadvantages common to co-operative societies and joint-stock companies.

So far as the disadvantages are concerned, it may be remarked, that a cooperative society is in many respects a joint-stock company. In fact, the only real distinction between them is this; in the former the labourers who are employed supply the capital, whereas in an ordinary joint-stock company the capital is subscribed by those who neither labour nor take any active part in the management of the concern. A cooperative society has therefore to contend with all those obstacles which so often prevent the success of a joint-stock company, when it has to compete with the individual trader or manufacturer. Has, therefore, a cooperative society any special advantages to set off against these obstacles in the way of success? In our opinion, some special advantages pertain to a cooperative trading society, because the capital required is supplied by the labourer; consequently each individual who is employed participates in the profits that are realised, and has therefore a direct interest in the work in which he is engaged. Hence all those feelings are called forth which stimulate the energy and activity of the employer; the workman is no longer listless and apathetic, but, as has been well said, cooperation secures the most efficient workmen, and calls forth their best efforts. To this circumstance is due the remarkable success which has been obtained by the cooperative masons in Paris. They, at the commencement, were favoured with no special advantages, custom was not given them from a feeling of

How these disadvantages were overcome by the masons'

charity, but they had to fight their way in the broad open field of competition; in fact, the difficulties the members of this Parisian society had to contend with were the same as those which must be struggled against if a few of our builders' operatives commenced a similar undertaking in London. If English mansions were erected by a cooperative society, in preference to the great builders of the metropolis, it would be quite evident that the cooperative society was chosen because it did its work in a more efficient and more economical style. The success, therefore, of the Paris society must be due to similar causes—namely, to efficiency and economy of workmanship; and these qualities have been secured because cooperation makes the labourer feel that he has a direct interest in the prosperity of the particular business in which he is employed.

society in Paris.

It would, however, be unfair to the labouring classes if they were induced to believe that all cooperative trading societies have achieved as much prosperity as the cooperative masons of Paris. For instance, a large cooperative cotton mill was opened at Rochdale in 1861, and it has of course been affected by the same untoward causes which have cast universal gloom over the trade of Lancashire. There are one or two circumstances connected with this cooperative mill which may be dwelt upon with advantage. It is not surprising that the large profits which were realised at the Rochdale Pioneers' store should have suggested to some of its shareholders the advantage of extending similar principles to manufacturing industry. Accordingly, in the year 1855, a room was rented, and filled with looms; large profits were at once obtained, even from this imperfect effort. The cotton trade was then at the height of its prosperity. Great encouragement, therefore, was offered to extend this scheme; a part of an old mill was rented, and it was filled with ninety-six looms; the capital in the concern at this time was 5,000*l.*, the annual profits realised were thirteen and a half per cent., and the following rules of management were adopted. A dividend of five per cent. was paid upon capital, and this was considered the first charge upon profits; one half of the remaining profits was paid as an extra dividend on capital, and the other half was distributed as a bonus

Progress of the cotton mill at Rochdale.

amongst the labourers; each labourer's share of the bonus being in proportion to the amount of wages he earned. The labourers, however, were paid the ordinary current wages, and therefore this bonus was an additional gratuity; hence such a society had the opportunity of engaging the most efficient workmen. The first success was so complete, that numerous other workmen were anxious to subscribe their capital, and it was soon found that the capital subscribed was so great, that a larger mill was required than any which could be rented. It was therefore resolved to build one: it was commenced in 1856, and completed in 1860, at a cost of 45,000*l.* The newest and most approved machinery was placed in it, and authorities agree that there is not a better mill in the whole country. Even the erection of this mill did not exhaust the capital which the labourers were willing to subscribe; accordingly a second mill was soon commenced. The cooperative manufactory happened to be opened at the very time when the dearth of raw cotton was commencing, and the undertaking has consequently hitherto been financially disastrous.

Difficulties to which it has been subjected by the present crisis.

The shareholders have shown great forbearance in contending against these unavoidable misfortunes, but time can only prove whether this cooperative undertaking will continue to survive the present crisis in the cotton trade. The circumstances, however, which have proved adverse to this cooperative manufactory, are entirely exceptional. If it should fail, no one ought for that reason to lose faith in the utility of the cooperative principle; all that ought to be deduced from such a failure is, that the cooperative principle had been perhaps too hastily applied to a branch of manufacturing industry which is probably more speculative than any other. For, in the cotton trade, periods of great activity have always been succeeded by times of corresponding depression. In fact, any cooperative trading establishment is a much more hazardous undertaking than a cooperative store; for the former is liable to be prejudicially affected by dullness of trade, whereas a cooperative store is subject to no such fluctuations in prosperity; the main object it has in view is to supply the labourers with the first necessaries of life, and the demand for these does not vary greatly from year to year.

The principle of

It ought to be stated that the cooperative masons in

Paris never employed any labourers but those who were shareholders; the advantage of adopting this rule is very apparent, and, unfortunately, English societies have not adopted a similar regulation. Thus, in the cooperative cotton manufactory at Rochdale, many of the labourers who were employed were not shareholders, and hence a hostility of interests was at once created which it is the main purpose of cooperation to prevent, for the shareholders of the society who were not also labourers soon said, Why should we give up a portion of the profits to those who only labour, and who have supplied no capital? We have no difficulty in obtaining operatives even without this gratuity, and we are therefore making a free gift, which we might appropriate to ourselves. Many, however, of the more thoughtful shareholders said, Our cooperative society is based upon the fundamental principle that labourers should share the profits. If they do not do so, our society is at once converted into an ordinary joint-stock company, and we are deprived of all our special advantages for obtaining success. This advice was at first attended to, but ultimately the opposite party prevailed, and it has been decided that the labourers shall no longer be entitled to any share of the profits. Those, therefore, who establish a cooperative trading society ought most rigidly to observe the rule, that none but those who subscribe capital should be employed as labourers. Such a regulation will provide the best guarantee against the unfortunate error which has been committed at Rochdale.

dividing a share of the profits amongst labourers has been disregarded at Rochdale.

After the most careful consideration of the whole subject, it may be concluded, that cooperative stores, whether on a large or small scale, are almost sure to prosper. It is therefore to be hoped that the rapid extension of these establishments, which is at the present time taking place throughout the country, may continue. With regard to cooperative trading societies, although the benefits to be derived from them cannot be exaggerated, yet their success is not so certain; it is therefore desirable that they should be commenced with great caution, and that the labourers who undertake them should thoroughly appreciate beforehand the difficulties which will have to be surmounted. The trade to which the cooperative principle is applied ought not to be of a speculative nature,

Prospects of success of cooperative stores.

and it may therefore have been a somewhat hazardous experiment to found a cooperative cotton mill. A farm, for instance, might with great advantage be cultivated by associations of labourers*. The quantity of corn and meat that is purchased by the Rochdale Pioneers would require a large farm to produce it, and there is no reason whatever why growing their own wheat should not be as profitable as grinding their own flour has proved to be. The cooperative principle can be most advantageously applied to those branches of industry whose success is mainly determined by the skill, care, and energy of the individual workman†; for it cannot be denied that cooperation calls forth all those qualities upon which the efficiency of the workman depends.

As the social and moral condition of a country advances the obstacles, which impede the application of cooperation to the production of wealth, will gradually diminish in intensity. Industry, when carried on by associations of labourers, requires from them a high moral standard of conduct. They must repose confidence in one another. They must have the sagacity to select the best men to be managers; and when these managers have been selected,

* A considerable area of land belonging to Mr. Gurdon, of Assington Hall, Suffolk, has been during many years most successfully cultivated by an association of labourers. Mr. Gurdon informed me that he was for a long time much impressed with the miserable condition of the agricultural labourers upon his own and neighbouring estates. He therefore determined, about thirty years since, to establish some cooperative farms. He accordingly let his land to the labourers who were employed upon it, charging them the ordinary rent which would be paid by a tenant farmer. He advanced them sufficient capital to cultivate the land, and this capital was to be repaid in a certain number of years. Mr. Gurdon has now been repaid all the capital which he originally advanced, and these cooperative farms are in the highest state of cultivation. The labourers, as at Rochdale, select from amongst their own body a committee of management, and those who are employed receive the ordinary agricultural wages. The profits are divided according to a plan very similar to that which has been adopted at Rochdale. It is hardly necessary to remark, that the labourers who are employed on these cooperative farms possess social and material advantages which never fall to the lot of ordinary agricultural labourers.

Mr. Gurdon deserves the homage which is due to one who benefits his fellow-men, for he has practically shown, by his successful experiment, how the condition of those labourers may be improved who are the poorest, and therefore the most wretched.

† This is corroborated by the fact that one of the oldest and most successful cooperative trading societies in England is the London Cooperative Picture-frame makers.

they must be obeyed. Unless great prudence is exercised, an undue proportion of the large profits, realised when trade is prosperous, will be expended, and there will not be accumulated a sufficient reserve to meet the difficulties of adverse times. Years may elapse before the majority of artisans will possess all these industrial virtues: when however, it is remembered that there are at the present time many labourers who in spite of all the disadvantages of imperfect education, have successfully carried on various trades upon the true cooperative principle, it may with confidence be anticipated that, in the course of time, wealth will be chiefly produced by labourers who supply the capital their industry requires. Such an union of the rival interests of capital and labour would so powerfully promote, not only the material prosperity, but the happiness of a community, that it may be regarded as representing the highest ideal of economic progress.

CHAPTER XI.

ON THE ECONOMIC ASPECTS OF SLAVERY *.

The produce of slave cultivation is divided amongst two classes.

IT has been already remarked, that when land is cultivated by a peasant proprietor, the entire produce belongs to him, because he provides the land, labour, and capital; but this ownership of land, labour, and capital, by the same individual, is also characteristic of slave cultivation, for if a farmer owns slaves, they are as much a part of his capital as the horses which plough his ground. When land is cultivated entirely by slaves, no portion of the produce is allotted to the labourers in the form of wages; slaves are not permitted to possess property, and they are therefore never paid wages; they of course have to be fed, and so have the horses which till the ground. Slaves therefore should not be regarded as labourers receiving wages, since they are as much a portion of the cultivator's capital as any kind of stock or implements which he may possess. Consequently, in slave cultivation, the produce of the land has not to be distributed between rent, profits, and wages; but simply between rent and profits.

Importance of considering the economical effects of slavery.

A discussion on the moral effects of slavery does not properly belong to political economy; for this science only undertakes to investigate the phenomena which concern wealth. No unimportant service, however, will be rendered

* The American civil war was at its height when this chapter was written. Many of the remarks contained in it are consequently not pertinent to the present time (1869). It is however perhaps advisable not to omit the chapter. It is still useful to be reminded of the true issue of that great struggle. This chapter, moreover, is chiefly based upon the speculations of Professor Cairnes, which afford a striking example of the skill with which the principles of economic science can be applied, to render intelligible the real character of a great political question.

to every philanthropist, and to every lover of freedom, if the principles of political economy demonstrate that slave labour is inefficient and un-economical, and that it ultimately diminishes the productiveness of the soil. If these facts can be established, slavery must ultimately work its own destruction, provided that the area over which it is permitted to extend can be restricted.

Defects of slave labour.

The economic aspects of slavery have never perhaps before been discussed in so clear and masterly a manner as in a work by Professor Cairnes, on 'The Slave Power.' This writer has most aptly said, that the labour of the slave has the three following defects:—'it is given reluctantly; it is unskilful; it is wanting in versatility.' We will, therefore, in the first place, explain the causes which produce, and the consequences which result from, each of these defects.

It is given reluctantly.

No one can doubt that slave labour must be given reluctantly. The only object which the slave can have is, to do no more work than is sufficient to prevent corporal or some other kind of punishment being inflicted upon him; the slave has no more interest in the prosperity of the industry in which he is employed than the mere beast of burden, for whether the crops are good or bad, the slave is sure to be fed. An able-bodied slave can be sold in America for 250*l.*, and therefore the self-interest of the slave owners will always provide a guarantee that the physical comforts of a slave will not be so much neglected as to endanger his health. No farmer, if he were in his proper senses, would ever permit a valuable horse to suffer, either from ill treatment or from want of food, for if he could not afford to keep the horse properly, it would of course be better for him at once to sell it. A slave therefore has no motive to exert himself, for whether he is industrious or not, he is sure to obtain the food and clothing which his master thinks he requires. Consequently, his labour is extorted from him, and he requires to be most vigilantly watched.

The slaves must consequently be worked in gangs.

Slaves can therefore only be advantageously employed when the work upon which they are engaged is such that they can be collected together in gangs, for it is impossible to watch a great number of workmen when they are scattered about. This consideration suggests the reason why the only commodities which have been produced on any

large scale by slave labour are cotton, tobacco, sugar, and rice; for the cultivation which each of these commodities requires is characterised by the circumstance that a great amount of labour is employed on a very small area, and the labour can therefore be concentrated. Mr. Olmsted, whose most valuable work on 'Slavery' contains an exhaustive record of facts, has calculated that one labourer will cultivate ten acres of wheat, whereas one acre sown with cotton requires the labour of at least ten men. A similar remark holds true with regard to the other products, namely, tobacco, sugar, and rice, which are cultivated by slave labour. This necessity of working slaves in gangs, in order that they may be vigilantly watched, is strikingly exemplified by the present geographical distribution of slavery in America; for there is nothing in the original constitution of the states which composed the Federal Union that will satisfactorily account for the fact, that the North is cultivated by free labour, whereas the South is cultivated almost entirely by slave labour. It is sometimes hastily concluded, that Europeans cannot work in the South, but this is an entire mistake; many of the Southern States, such as Virginia, have a climate quite as well adapted to Europeans as many of the free States of the West, such as Wisconsin. The boundaries of slavery are not determined by climate, but by the nature of the products which the soil is best fitted to grow. If corn were grown by slave labour, this labour would be inefficient, because it could not be sufficiently concentrated to be adequately watched; hence slave labour becomes more expensive than free labour, and therefore cannot compete against it, when such a commodity as corn is grown. This conclusion can be corroborated in a very remarkable manner, for some parts of the Southern States, such as the slopes of the Alleghanies, are well adapted to grow corn, and the other commodities which form the staple products of the North. It is a most instructive fact, that these particular localities, although in slave states, and surrounded with slavery, are invariably cultivated by free labour. It is therefore proved that slave labour, because it is reluctantly given, must be most carefully watched; and unless this can be done, the labour of the slave becomes so inefficient that it is far more expensive than

This determines the products upon which slave labour is employed, and its geographical distribution.

hired labour, even in those countries, such as America, where high wages prevail.

Slave labour is unskilful.

Unskilfulness is the second defect which belongs to slave labour, and in fact this defect is an inevitable consequence of the first defect, because, when labour is reluctantly given, it is sure to be deficient in skill. If the slave has no motive to put forth his physical energies, he certainly has no greater inducement to apply his mental faculties in order to acquire skill and dexterity; his position would in no way be improved, even if he were to show that he was a more valuable workman than his fellows. He must be fed, and so must they; and the fact that his price would be advanced in the slave market by an increase of skill, is a matter of no consequence whatever to himself. The more a slave shows that he is capable of doing, the greater is the amount of work which will be extorted from him, and for this extra exertion he receives no additional reward whatever. It is therefore for the interest of the slave to disguise as far as possible, from his master, the amount and the kind of work which he can really perform; a heavy discouragement is consequently thrown in the way of the least mental effort, and slave labour must always be most unskilful. These conclusions can be corroborated by specific facts, for it has never even been proposed to employ slave labour either in manufacturing, or any other industry which requires skill on the part of the labourer. We will once more refer to Mr. Olmsted, for from personal observation he gives direct testimony with regard to the unskilfulness of slave labour; thus he says that the negro slave is entirely unfit to be trusted with machinery; if he has placed in his hands any but the rudest tools, he is sure to break them. Mr. Olmsted affirms that the slave owners of Virginia find it more economical to use implements so heavy and clumsy that it increases the cost of performing work at least ten per cent., simply because they are not so liable to be injured or broken. He also mentions the very curious fact, that mules are almost invariably employed in the Southern States, instead of horses, because slaves are sure to neglect or ill use any animals which they have in charge; the mule being a hardier animal than the horse, is consequently not so liable to be injured by the want of proper treatment. These

Facts which confirm this proposition.

facts, and others which might be enumerated, clearly prove that no skilled industry can ever be successfully carried on by slave labour.

Slave labour is wanting in versatility.

The third defect of slave labour, namely, want of versatility, is due to the same causes as those which produce the other two defects which we have already discussed; for labour which is given reluctantly, and is unskilful, cannot possibly display any versatility. A labourer must possess considerable intelligence if he is able efficiently to perform several different kinds of work. Such intelligence, however, is sure never to be displayed by the slave; for if he only shows that he is able to do some additional kind of work, extra labour will probably be forced upon him, and therefore he rather loses than gains by acquiring versatility. Hence it is natural that slaves should show a great disinclination to be taught any new kind of work; upon this point Professor Cairnes has said, 'The difficulty of teaching the slave any thing is so great, that the only chance of turning his labour to profit is, when he has once learned a lesson, to keep him to that lesson for life. Where slaves, therefore, are employed there can be no variety of production. If tobacco be cultivated, tobacco becomes the sole staple, and tobacco is produced whatever be the state of the market, and whatever the condition of the soil.'

The explanation of these peculiarities of slave labour by the race of the slaves is untenable.

Before proceeding to describe some important consequences which result from the defects in slave labour just enumerated, it will be advisable to anticipate a remark which may very probably be made. Some of our readers may say, Although it is true that the negro slave labour possesses all the defects which are here ascribed to it, yet these defects are inherent in the negro race, and do not necessarily form a part of the institution of slavery. The history of ancient countries no doubt gives some support to this opinion. When Greece was in her greatest glory, a considerable portion of her skilled industry was performed by slaves; they constructed buildings and other works which never have been surpassed in artistic beauty. But the social position of the Athenian slave in no respect resembled the position occupied by the slaves in the United States. Even many Americans who do not live in the slave states despise the negro as a being degraded

by inferiority of race, and consider that his colour makes him a permanent outcast. But the Greek slave was generally a captive obtained in war; perhaps he was respected for the courage he had shown on the battle-field; he very possibly belonged to a race whom the Greeks scarcely regarded as their inferiors. The Greek slave had certain rights of property secured to him, and he always had a definite hope that he should be able, by his own exertions, honourably to emancipate himself. His industrial energy therefore, instead of being completely destroyed, was powerfully stimulated, and unlike the negro slave, whose interest it is to be unskilful, he had every motive to exert himself to the utmost. There is therefore no parallel whatever between the condition of the Greek and that of the negro slave. Our previous conclusions are consequently not in the least degree shaken; for if slaves are as completely deprived of every human right as they are at the present time in America, we may be quite sure that their labour must exhibit all the defects which have been attributed to it, whatever may be the race to which the slave may happen to belong. From these defects in slave labour some very important consequences result.

Slave labour is only applicable to a few commodities.

It has already been stated, that the slave is wanting in so many of those qualities which make labour efficient, that there are very few branches of industry which can be successfully carried on by slave labour. For instance, corn, and the various other products of European agriculture, are never grown by slave labour. Slaves are never employed in manufacturing industry, because they cannot be entrusted with machinery; in fact, slave labour may be said only to produce four commodities, viz., cotton, sugar, tobacco, and rice. If any other kind of industry is attempted, slave labour is sure to be supplanted by free labour, because the superior efficiency of the latter makes it more economical. But although the four products just enumerated can be profitably cultivated by slave labour, profit even in this case cannot be obtained unless certain conditions are fulfilled. It is, in the first place, evident that the unskilfulness and general inefficiency of slave labour causes it to be extremely wasteful and careless. The cultivation of the land with such labour must inevit-

ably be slovenly, and consequently the land is gradually impoverished. Moreover, there is another circumstance which tends to impoverish the land when it is cultivated by slaves; for, at the present time, able-bodied slaves are worth no less than 250*l.* in the American markets. Hence a planter must require a capital of 25,000*l.* in order to purchase 100 slaves. The greater part of the planter's capital will probably be absorbed in obtaining slaves, and he will therefore have little to spare for carrying out improvements in his land. Hence slave cultivation gradually exhausts the soil, and it therefore becomes all-important to the slave owners that they should be able to obtain fresh soils of virgin fertility. The highest authorities, many of them slave owners themselves, agree with perfect unanimity as to the exhaustive nature of slave cultivation. We will quote the very remarkable testimony of the Hon. C. Clay, who is moreover a native of the South, and an advocate of slavery. He says, 'I can show you with sorrow, in the older portions of Alabama, and in my native county of Madison, the sad memorials of the *artless and exhausting* culture of cotton.' He then states that the majority of the planters had not sufficient means to improve their land, either by rest or by the application of manures, and that they consequently move farther West, or South, in search of virgin soils, which will be impoverished in their turn; and he then proceeds emphatically to affirm, that 'a country in its infancy, where fifty years ago scarce a forest tree had been felled by the axe of the pioneer, is already exhibiting the painful signs of senility and decay apparent in Virginia and the Carolinas; the freshness of its agricultural glory is gone, the vigour of its growth is extinct, and the spirit of desolation seems brooding over it.' These most suggestive remarks of Mr. Clay might be easily corroborated by a great mass of similar evidence. It may therefore be regarded as conclusively proved, that slave cultivation cannot continue to be profitable unless the slave holders have at their command an abundant supply of fertile virgin soils. This suggests an explanation of the policy which has been long pursued by the Southern States of America; for they have ceaselessly directed their efforts to bring new and unoccupied territories under the dominion of slave insti-

It therefore tends to exhaust the soil.

Evidence of Mr. Clay.

Explanation of the policy of the South.

tutions. Texas was unjustly seized from Mexico, and yet its soil was not immediately wanted, for since its annexation comparatively few slaves have been located there. The South, however, fully recognised the future importance of acquiring this vast area of fertile and unoccupied land. Similar motives induced the South to strain every effort to obtain possession of Kansas. It is possible that the present Civil war in America will not decide the immediate abolition of slavery; no practical scheme for attaining this object has been as yet proposed, but the great question which is at stake is this—Shall the limits of slavery be indefinitely extended? The friends of abolition may be well satisfied if slavery can be confined within its present limits, for the defects which inherently attach to slave labour are such that slavery must cease to be profitable, and therefore will ultimately be extinguished, if it is permitted to work only upon a restricted area of land.

BOOK III.

EXCHANGE.

CHAPTER I.

ON VALUE AND PRICE.

THE subject of exchange is so intimately connected with every question of political economy, that many writers on this science consider that the production and distribution of wealth cannot be understood without previously ascertaining the laws of exchange. There is reason for this opinion, because it is quite true that commodities are only produced to be exchanged for other commodities, and the distribution of wealth of course implies the exchange of wealth. We believe, however, that clearness of conception is obtained by the arrangement adopted in this work, for the laws of the production and distribution of wealth, have been discussed without anticipating any of the laws of exchange, which will now be explained.

Reasons for not previously considering value.

The words value and price have already been occasionally employed without receiving any precise definition. Before investigating the laws of exchange, it is most important to define these words accurately; for many of the most wide-spread errors with regard to economic science arise from confusing the words value and price. The difference in their meaning will be best marked by an illustration. If a sack of wheat exchanges for a ton of coal, or if, in other words, a person who possesses a sack of wheat can obtain a ton of coals in exchange for it, then a ton of coals is the value of a sack of wheat; or, employing more popular phraseology, a sack of wheat is worth a ton of coal. It therefore appears that value implies the comparison of one commodity with another; for a sack of wheat has some particular value with

Distinction between value and price.

regard to every commodity for which it can be exchanged. If a sack of wheat could be exchanged for six pounds of tea, then six pounds of tea would be the value of a sack of wheat, when estimated in this particular manner. Value, therefore, is a relative expression; for instance, if the value of wheat compared with any particular article falls to a certain amount, there must be a corresponding rise in the value of this commodity, compared with wheat; for if wheat declines in value, so that it will only exchange for half as much tea, then tea must manifestly rise in value, since it will now exchange for twice as much wheat. When, therefore, the general value of a commodity declines, less of every commodity can be obtained for it in exchange; but if this be so, the value of all these commodities must rise when compared with the particular commodity in the value of which it has been supposed a general decline has taken place. These considerations demonstrate the erroneous nature of a statement not unfrequently made, that there is a general rise or fall in the value of all commodities. This is as impossible as it would be for each one of six rowers to row faster or slower than the other five. A. cannot row faster than his five companions, except by each of these rowing slower than A. In a similar manner value is a relative expression, and essentially implies comparison. It is quite impossible that there shonld be a general rise of values, for if there is a rise in the value of one commodity, there must be a fall in the value of all the commodities with which this one is compared. All that is here stated may appear so simple, that it will perhaps be supposed that time is being wasted in explaining self-evident truths. These truths however are by no means self-evident when involved in the entanglement of more complicated propositions. A shade of error has been cast over the writings of some eminent political economists because they have neglected to keep steadily in view the correct meaning of the word value.

A general rise or fall of value is impossible.

Price is a particular case of value. If the value of a commodity is estimated by comparing it with those precious metals which civilised countries employ as money, then it is said that the price, and not the value of a commodity, is ascertained. If a sack of wheat is exchanged for a quantity of gold, termed a pound sterling, it would

Price is value estimated in the metals used as money.

be perfectly correct to say that the value of a sack of wheat, estimated in gold, is one pound sterling; but for reasons which will be afterwards explained, it is found convenient to single out this case of value from every other, and consequently it receives a particular name, for it is not termed value, but price. The price of a commodity may therefore be defined as its value, when estimated by comparison with those precious metals which by general consent have been adopted as money. Although there cannot be a general rise or fall in values, there can be a general rise or fall in prices. If the precious metals become much more plentiful, their value compared with all other commodities declines; since a certain quantity of gold or silver will exchange for a diminished quantity of all other commodities. If the value of the precious metals, compared with other commodities, is diminished, the value of all other commodities, compared with the precious metals, must be increased; but, as before stated, the value implied in this latter comparison is termed price, and consequently the price of all commodities will be increased.

Reasons for considering price instead of value in this treatise.

In political economy a system of propositions may be enunciated, which treat of the value of commodities, and not of their price. This course is usually adopted, but it only adds to the difficulty of the subject, without attaining any practical object of utility; for none of the transactions of trade and commerce in civilised countries are ever arranged without the machinery of a monetary standard. Money has aptly been described as the universal medium of exchange. If it is desired to ascertain how much of one commodity another will exchange for, the calculation is always made in money; the prices of the commodities, and not their values, are considered. If, for instance, a person who possessed wheat desired to purchase coal, it would be important for him to estimate the value of wheat compared with coal; but he would not attempt to do this by actually bartering away his wheat for coal; such bartering would be cumbrous and expensive. All that it would be necessary for him to do would be to ascertain how much money his wheat would exchange for. When he thus knew the price of a sack of wheat, and also the price of a ton of coal, the value of wheat es-

timated in coal would be immediately known, because the quantity of coal for which a certain quantity of wheat would exchange would be accurately ascertained.

Ordinary method of political economists.

As therefore, in practice, questions of value involve a comparison of prices, our investigations will be simplified if the laws regulating the price of commodities are considered, without attempting to establish propositions with regard to the values of commodities. But until the functions of money are explained it will be necessary carefully to bear in mind that a certain assumption is made in all the investigations which involve the consideration of price. The assumption is this; that when the price of a commodity varies, the variation is always supposed to be produced by something which affects the value of the commodity, and not the value of the precious metals.

We shall assume at present that the value of the precious metals is not affected by any change in the mines.

We will endeavour to explain our meaning still further, by an illustration. Suppose it is observed that the price of wheat rises; this rise in the price of wheat may be due to two very distinct causes. In the one case, wheat may become scarcer, and therefore dearer; in the other case, wheat in common with every other commodity may rise in price, in consequence of new discoveries of the precious metals, such as those made in Australia and California, during the last few years. In the following chapters, therefore, which precede the discussion of the theory of money, the assumption is made that variations in price are not caused by an alteration in the value of the precious metals.

CHAPTER II.

ON THE CAUSES WHICH REGULATE THE PRICE OF COMMODITIES.

THE commodities which compose the wealth of a nation may be divided into three classes; and the manner in which the price of any particular commodity is regulated depends upon the class or division to which the commodity belongs. The three classes may be characterised as follows:—

Three classes of commodities.

1st. Some commodities are absolutely limited in quantity; however great the demand may be for them, it is impossible to increase their supply. Only a certain number of sculptures and paintings by ancient masters are extant, and no efforts can increase their number. Again, if some particular site is thought desirable for a house, the number of houses which can be built upon this site cannot exceed a certain limit. Thus, the shops in a thoroughfare such as the Strand, or Fleet Street, cannot exceed a certain number; articles of vertu, curiosities and antiquities, which are prized because some particular associations are attached to them, are in a certain degree fixed in quantity. There may thus be perhaps half a dozen very rare coins in the cabinets of collectors, and no one can feel certain that another of these coins will ever be discovered.

Those which are absolutely limited in quantity.

2nd. Some commodities can be increased in quantity, without any practical limit, but if their supply is increased their production will require a greater proportional expenditure of labour and capital, and therefore these commodities have a constant tendency to become more expensive, as the demand for them augments. We have already remarked that this character peculiarly belongs to

Those of which the supply may be increased by greater proportional labour.

agricultural produce. If there is an increase in the demand for agricultural produce, it becomes necessary to resort to less productive land, which cannot be cultivated without a greater expenditure of labour and capital in proportion to the produce which is raised from it. Many of the most important speculations of economic science, for instance Ricardo's theory of rent, depend upon the tendency which agricultural produce has to become more expensive, as the demand for it increases.

Those which may be indefinitely increased at the same rate of labour.

3rd. Some commodities can be increased to a practically unlimited extent without increasing their cost. Manufactured goods may be placed in this class; for although the cost of the raw material will, like the cost of agricultural produce, increase as the demand for it is augmented, yet the increase of cost which is thus produced may be almost neglected, because it bears such a small proportion to the whole cost of the manufactured article. Other articles, such as household furniture and wearing apparel, may be placed in this third class. There is no reason why shoes, for instance, should become scarcer because there is a greater demand for them; there could be no difficulty in supplying any number of shoes for which there may be a demand.

Laws which regulate the price of these classes.

Very different laws regulate the price, and therefore the value of a commodity, according to the particular class to which it belongs. We will commence by considering the commodities included in the first class.

Example of the first class. The price of a picture by a deceased artist.

The works of a departed artist have already been stated to be included in this class. Let us enquire what determines the price of one of Turner's pictures. The price is usually supposed to be regulated by demand and supply; but the words 'demand and supply' appear to be a never failing recipe for solving every economic difficulty; popular writers and popular speakers seem to think that an explanation based upon demand and supply must be not only very satisfactory, but also extremely scientific. The expression 'demand and supply' too often conveys as little meaning to those who use it as to those to whom it is addressed. If the question were asked, what regulates the price of Turner's pictures, the reply would not improbably be made that the price is regulated by the ratio which exists between the supply of these pictures and the de-

mand for them. It surely must be erroneous to speak of a ratio between demand and supply; there cannot be such a ratio, for supply in this case means a certain number of pictures, and demand in this case signifies a desire to possess a picture. It is therefore absurd to attempt to establish a ratio between a picture and a desire to possess it. A ratio can only exist when the two things compared are of the same kind. Demand is an indefinite expression; every educated person would like to possess a picture by Turner, and therefore in this sense the demand is almost universal; but the universality of such a demand cannot produce much effect in determining the price of a picture; every beggar would like to have a diamond, but a jeweller does not for this reason obtain a higher price for diamonds. This obvious ambiguity with regard to the meaning of the word demand has suggested to political economists the use of the term 'effectual demand.' It is intended to denote by this expression the demand which is exerted by those who are not merely desirous to possess some particular commodity, but who also have the requisite means to purchase it. This demand is the only one which can be effectual in producing any influence on prices. Although the employment of the words 'effectual demand' recognises a real difficulty, yet the difficulty itself continues to remain unsolved, for it cannot be said that the price of an article is regulated by the effectual demand for it, since a moment's consideration will clearly show that the effectual demand for an article varies with and depends upon its price. If Turner's pictures could be purchased at ten guineas each, there would be a much greater demand for them than if the same pictures realised a hundred guineas each. The effectual demand, therefore, varies with the price; an adjustment takes place, the price ultimately being such that the effectual demand which results from it will be satisfied by the supply of the article in question. If one of Turner's pictures were to be sold, and three individuals, namely A, B, C, were each willing to give 1,000 guineas for it, the effectual demand for this picture, when its price is 1,000 guineas, would be manifestly greater than the supply; for at this price three persons have a demand for one article. If A and B are both willing to give 1,500 guineas for this picture, but C will not give so

The statement that it is determined by the ratio of supply and demand is inaccurate.

Meaning of the term 'effectual demand.'

Nature of the adjustment between supply and demand which actually takes place.

much, the effectual demand for this picture, when its price is 1,500 guineas, still exceeds the supply. Again, suppose that A is willing to give 2,000 guineas for the picture, but that B will not give more than 1,900; the price at which the effectual demand will equal the supply may then be any amount between 1,900 and 2,000 guineas. The price, however, which this picture might actually realise depends upon what has been aptly termed by Adam Smith the higgling of the market. Since B is willing to give 1,900 guineas for the picture, but no more; and since A will not purchase it at a higher price than 2,000 guineas, the picture must consequently sell at some price between 1,900 and 2,000 guineas. If A had certain knowledge that B would not give for the picture more than 1,900 guineas, A would probably offer to purchase it at a price slightly exceeding this, and at this price he would no doubt obtain the picture. If, however, the owner of the picture knew that A would give 2,000 guineas for it, rather than not possess it, he might pretend to hesitate about selling the picture to A, and might ultimately succeed in inducing A to offer 2,000 guineas. Demand and supply, therefore, determine within very narrow limits the price of all those commodities which may be classed under our first division. The price which is actually realised oscillates between these narrow limits, according as the vendor or purchaser has the most skill and knowledge of trading operations. Hence it appears that the price of all those articles which are classed under our first division are regulated, not by a ratio between the demand and the supply, but by an equalisation of the demand to the supply. The notion of a ratio ought therefore to be discarded, since it is not a ratio, but an equation.

Higgling of the market.

The notion of 'ratio' between demand and supply must be discarded.

A further analysis is necessary.

A further question may now arise. Why should A be willing to give 2,000 guineas for a picture, which B will not purchase at a greater price than 1,900 guineas, and for which C will not bid more than 1,500 guineas? A, it is said, considers the picture worth 2,000 guineas; but this is not a sufficient explanation. Why does he place this particular value upon the picture, whereas B and C place a less value upon it? A further analysis is consequently required. Value is composed of two elements, and these

The two elements of

two elements respectively arise, firstly from the use which the individual may have for the article, and secondly, from the difficulty he may have in obtaining it. These two elements, which are the components of value, may be symbolised by the letters U and D. U is supposed to signify value, as depending upon utility, and D signifies value as depending on the difficulty of attainment; both of these elements must always be present whenever an article has an exchange value. No commodity can be more essentially useful than water, yet water has never any exchange value, unless there is some difficulty in obtaining it. It is true that in large towns water has an exchange value, and it is consequently sold at a certain definite price; in this case, however, the element D is present, for in large towns there is a difficulty in obtaining water; the spontaneous supply which nature provides soon becomes exhausted, and water has at a considerable outlay to be brought from a distance. On the other hand, no article can obtain exchange value unless the element U is present; since difficulty of attainment will not make an article valuable, unless it either can serve some practical use or gratify some desire. A precious stone, such as a ruby, is prized as an ornament; it therefore has its use, because it serves to gratify a desire. It is generally said that rubies are very valuable, because they are so very difficult to obtain; but if, in consequence of a change in fashion or taste, they should ever cease to be prized as an ornament, they will then have no value at all, although it might be just as difficult to find a ruby as before. Both the elements U and D must therefore coexist in every article which has exchange value, for an article, however difficult to obtain, can have no value unless it is capable either of supplying some want, or gratifying some desire; on the other hand, no article can possess exchange value, if it can be obtained without difficulty, although the article may be of prime necessity.

value. Absolute utility and difficulty of attainment.

The first exemplified in the case of water.

The second in the case of precious stones.

It is not possible beforehand to predicate in what proportion the two elements U and D may combine to form the value or price of any particular commodity. In almost every case the price at which an individual purchases a commodity represents in value only a very small portion of the use or advantage which the possession of the

The price may be determined by either or both of these elements.

article confers upon the individual who purchases it. A person buys a coat for three pounds, because at this price a coat of the quality he requires is offered to him; but three pounds does not represent the use which the person who purchases the coat derives from it, for if he had the money he would no doubt give thirty guineas, rather than be without a coat; therefore, in this case, the element U only exerts a small portion of its whole force in determining the price of a coat. The price is in this case entirely regulated by D, or, in other words, by the difficulty of obtaining the coat. As, however, before remarked, U, although only partially operative, can never be entirely absent.

The utility can be the sole element operative, only when the supply is absolutely limited.

The example just quoted illustrates the manner in which the two elements U and D combine to produce the price of a commodity. U is in fact almost invariably only partially operative; this is the general rule, for the case may be regarded as a very rare exception when U as well as D both exert their full influence upon the price of an article. When such a case does occur, the purchaser of a commodity is guided, in the price which he offers for it, solely and entirely by the consideration of the use he expects to derive from the article. This can only happen when the supply of a commodity is absolutely limited.

Exemplified by the former instance.

To explain this still further, let us revert to our original example, which supposes that three persons, A, B and C, are each anxious to purchase some particular picture by Turner; C will not give more than 1,500 guineas for it, B not more than 1,900, and A ultimately purchases it at a price between 1,900 and 2,000 guineas. With regard to C and B, 1,500 guineas and 1,900 guineas represent the value in use, which C and B respectively place upon the picture. This, therefore, is the monetary value of the element U, according to the individual opinion of C and B. In A's estimation, the value of the element U is greater, for to him the picture has a value of 2,000 guineas. As before remarked, the price which the picture actually realises will be some amount between 1,900 and 2,000 guineas, because if the price sank below the inferior limit there would be a greater demand for the picture than the supply; if the price exceeded the superior limit the demand would entirely cease, because this

superior limit denotes the greatest value in use placed upon the picture by the person who is most anxious to possess it. To recapitulate, therefore, it may be stated, that the following principle regulates the price of all those commodities whose supply is absolutely limited. The demand depends upon the price; the price must be such that the demand will exactly equal the supply.

Value in use cannot be analysed.

The value in use which an individual may happen to set upon some particular article is the result of various motives, which it is almost impossible to analyse. Thus that to one individual, A, the value in use of one of Turner's pictures is 2,000 guineas, for A would rather give this sum than be without the picture. To B, however, the value in use of the same picture is only 1,900 guineas. It is quite evident that various motives may induce a greater value in use to be attributed to this picture by A than by B; A may be a wealthier man than B, and money may consequently not be of so much importance to him. A may perhaps also have a superior taste for art, which makes his appreciation of a painting greater than that of B. A may also be influenced by a hope of future gain, since he may expect to realise considerable sums by granting permission to have the picture engraved, or he may think that after a few years have elapsed the demand for the works of the particular artist may so increase as greatly to enhance the value of the picture. In every case, a great variety of motives operate upon different individuals in determining the value in use which each may place upon any particular article.

The value of the class of articles absolutely limited is often obscurely explained.

The articles, the supply of which is absolutely limited, are so few in number, that it may be thought that the above example has been too minutely investigated. It is, however, somewhat curious that those principles of economic science which are apparently the most simple are usually treated with the greatest obscurity. With few exceptions, political economists have failed clearly to explain the principles which regulate the price of such a commodity as the one just considered.

In the succeeding chapter the causes will be analysed which determine the price of those commodities comprised in the second of the three classes previously enumerated at the commencement of this chapter.

CHAPTER III.

ON THE PRICE OF AGRICULTURAL PRODUCE.

IT is desirable to devote a separate chapter to the consideration of the laws which determine the price of agricultural produce. In all questions relating to price, a broad distinction must be drawn between agricultural and manufactured produce. As previously stated, an increase in the demand for the former usually causes an advance in price: whereas the supply of manufactured commodities can be, as a general rule, increased without producing any material advance in their price.

Agricultural produce is subject to considerable fluctuations in price.

Many causes make the price of agricultural produce vary from year to year. Our corn markets are influenced not only by the productiveness of the last harvest, and by the prospects of the next, but they are also sensibly affected by the good or bad crops of other countries. Since so many circumstances cause a great fluctuation in price, it may perhaps appear impossible to establish any general laws with regard to the price of agricultural produce. It will however be shown that the variations in the price of such produce, though constant and great, obey certain laws with strict regularity.

Determination of the ordinary profits of farming.

No farmer will rent land unless he believes that the price which the produce realises will, on the average of years, suffice to pay his rent and all the expenses of cultivation; a surplus must also remain adequate to remunerate him, not only for the capital he has invested in the business, but also for his own labour of superintendence. When the farmer is fairly remunerated for his labour and capital he may be considered to realise the ordinary profits of trade. It is quite impossible that the prices in any particular trade can permanently be so low as to prevent

these ordinary profits being realised; because no traders would be satisfied to continue investing their capital in a business if much smaller profits were realised from this business than from others. From these considerations the following principle may be deduced—the price of agricultural produce must be such as will enable farmers on the average of years to realise the ordinary profits of trade.

They are determined by the average value of the produce after deducting the rent.

The profits of the farmer have above been described as the surplus which remains when all the expenses of cultivation have been deducted from the pecuniary value of the annual produce of a farm. These expenses include rent, the wages of labourers, the purchase of new implements, the wear and tear of old implements, the loss which arises from the ordinary casualties to which live stock is liable, &c. It must be evident that any cause which increases the farmer's expenses must diminish his profits. Suppose the average annual value of the produce raised from a farm is 2,000*l.*, and that the expenses of cultivation are 1,500*l.*, the farmer having to pay 500*l.* in rent, 800*l.* the wages of his labourers, and the remaining 200*l.* being required for various other necessary expenses, such as the purchase of implements, &c. Deducting the 1,500*l.* from the 2,000*l.*, which is the annual average value of the produce of the farm, it is evident that the 500*l.* which remain would be the farmer's profits. Now let it be further assumed, that this 500*l.* is a fair remuneration to the farmer for his capital and labour of superintendence. Consequently, when his profits are 500*l.*, he may be considered to realise the ordinary profits of trade. In this case, the prices obtained for the produce, cause everything to be in a state of perfect adjustment. It, however, frequently happens, that the rent of land in the course of a few years considerably rises. Let us enquire what will occur if the rent of this farm is increased from 500*l.* to 700*l.* a year, whilst the price of agricultural produce, and the expense of cultivating the farm, remain unchanged. This increase of rent would reduce the farmer's profits from 500*l.* to 300*l.*; but it has been above assumed, that when his profits were 500*l.*, he obtained no more than the ordinary remuneration for his capital and labour of superintendence. He consequently receives less than the

Effects of a rise of rents.

ordinary remuneration when his profits are reduced to 300*l*. He therefore virtually cultivates his farm at a loss, because he would secure a larger income if he applied his capital and energy in some other business. Under these circumstances, farmers would be induced gradually to leave their farms, and the land would be thrown out of cultivation. But as it is necessary that the people should be fed, the land must be cultivated. It may therefore be concluded, that neither rent, nor any other items of the expense of cultivating land, such as cost of labour, can be increased, unless the farmer receives a compensating remuneration from a rise in the price of agricultural produce. Let us now, however, revert to Ricardo's theory of rent, in order to understand how a rise in rent is produced.

Cause of a rise of rents as deduced from Ricardo's theory of rent.

This theory describes rent as a price which is paid for the use of an appropriated natural monopoly. This monopoly arises from the fact, that the supply of fertile land, which can be brought under cultivation, in any particular country, cannot be increased beyond certain limits. The difference between the rents paid for two different farms represents the excess of the pecuniary value of the one farm above that of the other, whether derived from greater fertility or from superior advantages of situation. The land of each country varies so greatly in fertility, that every country possesses some barren tracts which are too poor to be cultivated, even if granted rent free. England has soils of every degree of fertility, from the barrenness of her Yorkshire and Devonshire moors, to the rich luxuriance of the Sussex wolds. There will consequently always be some land which may be considered to be on the margin of cultivation. Such land will pay for cultivation if let at a merely nominal rent. Hence Ricardo's theory of rent defines the rent of any particular land to be the pecuniary measure of the degree by which it exceeds in productiveness that land which is just upon the margin of cultivation. It is evident that the margin of cultivation descends as the population of the country increases, for it becomes necessary gradually to resort to less productive* land, in order to supply a larger demand for food. But as

* The epithet "productive" here includes fertility and advantages of situation.

the margin of cultivation descends, rents must rise, because as less productive land is brought under tillage, the greater will be the difference between the produce raised from any particular land and the worst land under cultivation, and rent may be regarded as the pecuniary measure of this difference. The worst land, however, which is in cultivation at any particular time will only just bear a nominal rent, and does no more than return the ordinary rate of profit to the farmer for his labour and capital. If, as population increases, it is necessary to bring still worse land into cultivation, it will be manifestly impossible to till this land except at a loss, unless a rise takes place in the price of agricultural produce. Hence this principle is established—that the price of agricultural produce must always be such as will enable the ordinary rate of profit to be obtained from the worst land in cultivation, which pays a merely nominal rent. It can be easily shown, from this proposition, that rent is not an element of the price of agricultural produce; or, in other words, corn and food would not necessarily be cheaper if every farmer's rent in England were remitted for a term of years. This has always appeared a most startling paradox to those who are unacquainted with political economy.

Conclusion as to the price of agricultural produce.

Let it be assumed that every farmer has the rent of his farm remitted for the next thirty years: all the land cultivated would then be rent free. The question arises, Would this change produce any effect upon the price of agricultural produce? The quantity of agricultural produce required, in any particular country, is not affected by the amount of rent paid for the use of land. If, therefore, all the land of England were made rent free, there would be no reason to suppose that either more or less agricultural produce would be consumed than when the present rents were charged for land. The same area of land would therefore have to be cultivated; the margin of cultivation would neither ascend nor descend. That land, however, whose fertility is such as to place it just on the margin of cultivation, paid merely a nominal rent, before the supposed change was introduced which made land rent free. The price of agricultural produce was previous to this change such as to enable the farmer to realise the ordinary profit of trade upon this land; the land would

Proof that rent is not an element in the price of agricultural produce.

not, of course, continue to be cultivated, if the price of agricultural produce was not sufficient to enable such profit to be obtained. But even if all rents were remitted it would still be necessary to cultivate this particular land, because there is no reason to suppose that the country will require less agricultural produce than before. Hence the price of agricultural produce cannot decline in consequence of a remission of rents, since, if such a decline in price occurred, much of the land which was previously cultivated at a merely nominal rent would cease to return the ordinary rate of profit, and would therefore be thrown out of tillage; but this cannot take place, because the demand for agricultural produce is as great as it was before. Hence if all the land of the country were rent free, it would not necessarily follow that the price of agricultural produce would be reduced. It may therefore be concluded, that the price of agricultural produce is not affected by the payment of rent. The price is really determined by the demand for agricultural produce; because, as the demand increases, it is necessary to resort to less productive land. As the population of a country increases, the demand for agricultural produce becomes greater. Hence the price of agricultural produce rises as the population of a country advances. This rise in price may be counteracted in the two following ways:—

The price of agricultural produce tends to rise as population increases, but this rise is partly counteracted

1st. The introduction of agricultural improvements may supply a country with an increased quantity of food, without extending the area of cultivation.

2nd. The increased quantity of food required by a country whose population is advancing may be supplied by foreign importation.

by importation of corn,

The effect of the importation of food, either in reducing or keeping down its price, will be fully explained in the chapter on international trade. The last few years have afforded a striking example of the influence produced by the importation of corn. Since the year 1840, a very great increase in our population has taken place, but so vast have been the importations of food, that there has been no material rise in its price. The introduction of most important agricultural improvements has been no less effectual towards meeting these increased demands for food. Drainage has produced fertility, where before all

and by agricultural improvements.

was useless sterility. Moreover, new agricultural implements, such as the steam plough, may yet be destined so much to economise labour, that land which will not now pay to be cultivated may be made to return a remunerative profit, without any rise in the price of agricultural produce. In the absence, therefore, of agricultural improvements, it may be said that the price of agricultural produce is determined by the extent to which the demand for it has to be satisfied from the soil of the country itself.

If the importation of food does not keep pace with the increased wants of an advancing population, the price of agricultural produce must inevitably rise.

The price of mining produce is determined by laws similar to those which determine the price of agricultural produce.

The price of mining produce is regulated by laws very analogous to those which determine the price of agricultural produce. Mineral deposits vary in richness, in the same manner as land varies in fertility. Some mines are more expensive to work, and less advantageously situated than others; just in the same way as land may be inconveniently situated, because remote from markets. Suppose the price of iron declined one half; a great number of the existing iron mines would at once cease to return any profit, and could not be worked except at a very considerable loss. But people will not continue investing their capital if they cannot realise upon it an adequate profit, and therefore such a reduction in the price of iron would cause all the least productive mines to be shut up; the supply of this metal would consequently be greatly diminished. If this diminished supply sufficed to satisfy the demand, the reduction in price might be permanent. But if the demand was in excess of the supply, a rise in the price of iron must follow, because, without such a rise, no adequate inducement could be offered to increase the supply by reopening those mines which a reduction in price had caused to be closed. It therefore appears, that the supply of iron which is forthcoming at any particular time depends upon the price which this metal realises, because the price determines what mines can be worked at a profit. The following adjustment must therefore take place: the demand varies, *cæteris paribus*, inversely with the price, for the greater is the price the less will be the demand. On the other hand, however, the supply varies directly with the price, because the greater the price

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the greater, of course, will be the supply. If the price is too great, the supply will exceed the demand; if the price is too low, the demand will exceed the supply. The price, therefore, must be such as to adjust the demand to the supply. When the price reaches this point, it is in a position of equilibrium.

There are constant oscillations of price about the natural price thus determined.

It is no doubt quite true, that there are constant variations in price, which prevent this position of equilibrium being continuously maintained, but this does not lessen the importance of ascertaining that such a position of equilibrium really exists. The discovery that the planets move in ellipses was justly regarded as a most important scientific truth, and the importance of the discovery was not diminished although it was afterwards proved that the planets are constantly disturbed from their elliptic orbits by a great number of small perturbing forces. The elliptic orbit of a planet may be regarded as a position of stable equilibrium, because, as the planet is disturbed from this position, a force will be generated to restore equilibrium, and the intensity of this force, if the disturbing cause continues, will so constantly increase, that in the end it must prove effectual. In a similar manner a position of stable equilibrium is defined, when the price of iron is such as to equalise the supply to the demand; the price does constantly oscillate about this position, but these oscillations cannot exceed certain limits, because an agency is generated, as in the case of the planetary elliptic orbits, to restore the price to its position of equilibrium. The price so determined has, by Adam Smith and others, been termed the natural price.

CHAPTER IV.

ON THE PRICE OF MANUFACTURED COMMODITIES.

Commodities of which the supply can be indefinitely increased without increasing the cost of production.

IN this chapter the price of those articles will be considered which were placed in the last of the three classes previously enumerated. To such commodities the name of manufactured articles is given; because the name suggests the leading points of difference between these commodities and those whose price was considered in the last chapter. It may be thought that no such distinction really exists; a manufactured article, it might be said, is in one sense either an agricultural or a mineral product. A piece of linen cloth is woven from flax, which is in every sense of the word as much an agricultural product as the wheat from which a loaf of bread is made. Since, therefore, bread and linen cloth are both made from the produce of agriculture, it may appear that the laws which regulate the price of one ought to regulate the price of the other; and that, therefore, those laws of price which were enunciated in the last chapter, with regard to agricultural and mining produce, will equally apply in determining the price of such a commodity as a piece of linen cloth. But there is this distinction: the value of agricultural and mining produce is almost entirely derived from the value of the raw material; whereas the value of the raw material from which a manufactured article is made only forms a very small portion of the entire value of this particular article. The reason of this must be manifest to all. Before a bundle of flax can be woven into a piece of linen cloth, it must pass through many different processes, carried on by many different classes of labourers. Not only must all these labourers be remunerated, but the employers of these labourers have advanced capital

The value of the raw material forms a small part of the value

of manufactured goods.

and invested money in expensive machinery, and for all this outlay they must receive an adequate compensation. There must, therefore, be such a difference in the price of the flax in its raw state, and the price of the linen cloth into which it is woven, as will serve to give both to the employers and their labourers all the remuneration just pointed out. The value, therefore, of the raw material forms only a very small portion of the whole value of the particular article into which it is manufactured. It is this circumstance which causes the price of manufactured commodities, and the price of raw produce, to be regulated by very different laws.

The price of manufactures need not increase with an increased demand,

Unless a fresh discovery is made, or unless improved machinery and improved methods of production are introduced, it is impossible to increase the supply of mining produce without resorting to less productive sources, or to increase the supply of agricultural produce without resorting either to less fertile land or to more expensive culture. Such produce, therefore, in the absence of counteracting circumstances, must rise in price as it becomes necessary to increase the supply, in order to meet a larger demand. But the same law does not apply in the case of a manufactured article. If it were known that the quantity of linen cloth required to be manufactured in this country would increase twenty per cent. in the next two years, manufacturers of linen would have to increase their purchases of raw flax by twenty per cent. This increased demand for flax would cause its price to rise in obedience to the principles enunciated in the last chapter. This rise in the price of flax would, of course, produce some effect on the price of linen; because the manufacturers of the linen must be compensated for the higher price which is paid for the raw flax. But since the value of the flax forms only a very small portion of the whole value of the cloth into which it is woven, it follows that the rise in the price of the cloth due to the rise in the price of flax will be, comparatively speaking, small. Thus we are informed that a rise of twenty per cent. in the price of flax would not cause the price of linen cloth to rise as much as five per cent. The causes, therefore, which affect the price of raw produce also influence the price of manufactured commodities, but only to an extremely limited extent. If

as only one of the elements of their value is affected.

we omit the very trifling rise in price, in a manufactured commodity, which results from an increased demand for the raw material, there is no reason why the price of manufactured commodities should in any way be affected by an increased demand for them. An increased demand for linen cloth to the extent of twenty per cent. need not necessarily influence any of the elements, with the exception of the price of the raw material, of which the cost of producing this cloth is composed. Machinery need not be more expensive, the wages of labour need not necessarily rise; it is even quite possible to suppose that the production of an article may be cheapened as its supply is increased, because when commodities are manufactured on a large scale many of the processes of the manufacture can often be economised. For instance, division of labour makes labour cheaper and more efficient; machinery on a large scale almost invariably works at less comparative cost than machinery on a smaller scale. A steam engine exerting the same propelling force as two smaller engines will originally cost less than the two, will consume a smaller quantity of fuel, and will not require the same amount of labour to superintend it. It is therefore quite possible that an increased demand for a manufactured article may diminish its price. To illustrate this, the following example may be quoted. An American, Mr. Nathan Thompson, recently invented a most ingenious machine for sawing and cutting, in their proper form, the planks of which light boats are made. It has been calculated that so much labour and time would be saved by this machine that the cost of a boat would be reduced at least thirty per cent. People therefore confidently predicted that the machine would be introduced, and that boats would inevitably decline thirty per cent. in price; but this is too hasty a conclusion. It must be remembered, that so great is the rapidity with which this machine works, that a very few of these machines would soon turn out a great many more planks than are required in the construction of all the boats which are built in a year. The demand, therefore, for boats would not be sufficient to keep these machines fully at work. This would involve considerable loss. In the first place, a machine, when not at work, must be regarded as capital

The cost of production of manufactures may diminish as the supply is increased.

Illustration of this principle from boat-building machinery.

lying idle, and secondly, the men who attend it would be employed irregularly. Such labour is always expensive, because a man has to receive some remuneration for the time when he is not at work. These machines, therefore, can only exert part of their effect, in reducing the price of boats, as long as the demand for boats is not sufficient to keep them actively at work. It is not improbable that this invention will for some time effect no sensible reduction in the price of boats, because, in so limited a trade, people may hesitate to introduce expensive machines, and therefore boats may continue to be made according to the old plan, in spite of the demonstrated excellence of Mr. Thompson's invention. But if a much greater number of boats were required to be made, no doubt these machines would be generally introduced, and nothing could then prevent a reduction in the price of boats proportionate to the decrease which these machines effected in the cost of making boats.

A rise in the wages of labourers must be compensated by a rise in the price of the products of their labour.

It frequently happens that the wages of the labourers employed in the manufacture of a particular commodity advance as the demand for the commodity increases. If this occurs, these particular manufactured goods will rise in price, in order that the employer may be compensated for the higher wages he is now obliged to pay. Suppose that, at a time when the activity of the cotton manufacture affords constant employment to all those accustomed to the trade, a new market for our cotton goods is suddenly opened. In order to satisfy this new demand the cotton manufacture must be extended; new hands will have to be imported into the trade, and such untrained labour must for a time be, comparatively speaking, inefficient, and therefore more expensive than the labour of those who are accustomed to the trade. The period just preceding the American civil war afforded an example of this. So rapidly was the cotton manufacture extended in consequence of the large exports of cotton goods to the East, that the supply of labour in the district proved to be inadequate. The manufacturers, therefore, sent agents throughout the country in search of labourers, and in one agricultural village in the Eastern Counties no less than a hundred labourers—including men, women, and children—were engaged for the purpose of being employed

in some of the Lancashire mills. To these persons high wages were of course offered, in order to induce them to leave their own locality. But such labourers could not be worth so much as those who by practice had acquired skill in that trade. The regular Lancashire operatives, therefore, obtained a very important rise of wages, and it is impossible for such a rise of wages to occur without increasing the cost of producing cotton goods. The question, therefore, arises—By whom is this increased cost borne? Would it come entirely out of the manufacturers' pockets, or would it be borne by the purchaser of cotton goods? The answer to this question will be found to involve an explanation of the principles by which the price of manufactured commodities is determined. It will, in the first place, be proved that the manufacturers will be compensated for the rise of wages by a rise in the prices received by them from the purchasers of cotton goods. When discussing the subject of profits; it was pointed out that the profits of each particular trade approximate to a certain average. The constancy of this average is maintained by the competition of capital. We do not mean to say that the profits of the butcher approximate to the profits of the cotton manufacturer, for there are causes which must create a permanent difference between the profits of these two trades. But although the average profits realised in different trades may greatly and permanently differ, yet there is a certain rate of profit belonging to each trade, which is termed the natural rate of profit for that trade. Such a rate of profit indicates a point of equilibrium about which the average profits of the trade may be considered to oscillate. Sometimes they fall short of this point, sometimes they go beyond it, but the competition of capital is an agency which is ever at work to restore the average rate of profit to this position of equilibrium, whenever disturbed from it. It is impossible precisely to tell what will be the average rate of profit realised in a particular business. Let us suppose that, in the cotton trade, it is ten per cent. upon the whole capital invested. There is always in this country a vast amount of capital ready to be exchanged from one investment to another, if the slightest additional profit can be realised. Such a rapid transfer

Proof of this proposition.

The average rate of profit in each trade is determined by the migration of capital.

may be regarded as a proof that the competition of capital is active. Having, therefore, assumed that the average rate of profit in the cotton trade is ten per cent., let us attempt to trace what will occur if the profits realised in this trade are, by some disturbing cause, reduced below ten per cent.; this being the natural rate of profit as determined by the competition of capital.

If wages were increased without an increase of price, profits must fall in the trade affected.

The rise in the wages of the cotton operatives which was caused by the increased demand for cotton goods in the East, was quite sufficient to have reduced the profits of the cotton manufacturers from ten to seven per cent. But if not more than seven per cent. was realised, the cotton manufacturer would be placed in an exceptionally unfavourable position, for it has been supposed that his business, after making allowance for all the various circumstances connected with it, will be less remunerative than other branches of industry, unless a profit of ten per cent. can be secured. Cotton manufacturers, therefore, would show an anxiety to contract, rather than to extend their operations, for they would be naturally desirous to withdraw as much capital as possible from their own comparatively unremunerative business, and place it in other more lucrative investments. The manufacture of cotton goods would consequently be diminished just at the time when it ought to be extended, in order to meet the increased demand. But it is easy to show that such a contingency could not actually occur. An increased demand for cotton goods means an increased desire to possess them, accompanied with the requisite means to purchase them. Those individuals who want cotton goods will much prefer to pay a somewhat higher price for them rather than go without them altogether. Such a higher price, therefore, will be offered for cotton goods as will compensate the manufacturer for the increased wages which he is compelled to pay to his operatives. But the demand for a commodity is always diminished if its price is increased. The demand for cotton goods will not be so great as it would have been but for the rise in the price of these goods necessary to compensate the manufacturer for the augmented cost of production resulting from a rise in the wages of labour. Hence it would appear that the price of manufactured commodities is regulated by two

Hence the price is certain to rise.

The price of manufactures is

principles. The first of these principles determines the average price of a commodity; this price we have before described as a position of equilibrium from which there may be frequent temporary variations. The second principle accounts for these variations, and indicates the laws by which they are regulated. The meaning of this may perhaps be better explained by referring to an illustration already noticed. The orbit of every planet is mainly determined by the attraction of the sun; and its orbit, so far as it depends on this attraction, is accurately an ellipse. But each planet is acted upon by an almost infinite number of small disturbing forces, which cause it constantly to deviate from an accurate elliptic orbit. Although a planet, therefore, never continues even for a short period to move in an ellipse, yet for many purposes it is sufficiently accurate to consider that the ellipse is its real orbit. Other phenomena however, most important to be considered, depend entirely upon those small disturbing forces which produce the variations in a planet's elliptic orbit. Hence astronomy requires not only that the main cause of a planet's motion should be explained, but also that the laws of the disturbing forces which act upon it should be enunciated with equal care and precision. We will now show the analogy which we have been indicating, by stating the two principles which regulate the price of a manufactured commodity.

therefore determined by two principles, one determining the average price, the other, the oscillations about it.

1st. The price of each manufactured commodity must, on the average, approximate to its cost of production. The term 'cost of production' includes not simply the cost of material, and the wages of labour, but also the ordinary profit upon the capital employed in producing the particular commodity.

Statement of these principles.

2nd. The demand for a commodity varies with its price, and the price at any particular time must be such as to equalise the demand to the supply.

With regard to these two principles it may be remarked, that the first controls prices in the following manner. The price of any manufactured commodity cannot permanently to any considerable extent either exceed or fall short of its cost of production. If the price were greatly in excess, the producer would secure very much more than the ordinary rate of profit; and on the other

The average price approximates to the cost of production.

hand, if the price of a commodity were much less than the cost of its production, the profits of those who produce the commodity will fall materially below the ordinary rate. But the competition of capital prevents the profits of any particular trade continuing, for a length of time, either above or below the ordinary rate of profit. With regard therefore to the price of a commodity, its cost of production may be regarded as a position of stable equilibrium, and whenever disturbed from this position, the competition of capital is at once brought into action, to restore equilibrium. Just in the same way the elliptic orbit of a planet may be regarded as a position of stable equilibrium: the planet is constantly disturbed from this position, but the attraction of the sun is at once brought into operation to restore its equilibrium.

The oscillations are determined by variations in the supply and demand.

Although the competition of capital makes the profits of each trade and the price of each commodity tend towards what has been termed the natural rate, yet it is a matter of ordinary observation, that there are temporary fluctuations in the prices of all commodities which correspond to the temporary variations in the profits which are realised in any particular trade. Such temporary fluctuations in the price of a commodity, and in the profits of any particular trade, are produced by variations in the demand and supply. Many striking instances of these variations in price, consequent on a sudden variation in the demand for a commodity, were afforded by the circumstances of the late American civil war. Let us take the case of the Birmingham gun trade, which was thrown into a state of sudden activity, in consequence of the purchase of a large number of rifles both by the Federal and Confederate armies. Before this sudden demand arose, the rifle trade was in its ordinary condition; the price of rifles closely approximated to the cost of producing them, and the natural rate of profit consequently prevailed. When, however, an unusually large number of rifles was suddenly required, the price for a time rose greatly above the cost of production; in fact, the cost of production temporarily ceased to be the controlling force in regulating the price. These high prices of course stimulated the manufacturers to the utmost activity, and the greatest possible number of rifles was produced which could be manu-

Illustration of the second principle from the Birmingham gun trade.

factured by the available resources of the trade. Time is, however, required to increase the supply beyond a certain point; the workmen accustomed to a trade are limited in number; and new workmen cannot acquire the requisite skill without a long and tedious training. Therefore the supply, even of a manufactured commodity, cannot be immediately increased beyond a certain point; hence a very great and sudden demand for a particular commodity may cause it temporarily to assume the same character as those commodities whose price has been previously considered*, and whose supply is absolutely limited in amount. It was shown that the price of such commodities must be so adjusted as to make the supply equal to the demand.

Hence the second principle is the same as that which regulates the price of commodities whose supply is absolutely limited.

Although the price of a manufactured article may vary greatly from its cost of production, yet such a variation must be regarded as only temporary. If for instance the price of such a commodity greatly exceeds the cost of producing it, unusually large profits are realised by those who produce it, and thus a powerful inducement is constantly held out to increase the supply. But as the supply is increased, the price will have a constant tendency to decline, until at length the price approximates to the cost of production of the commodity, and the trade is again restored to its normal condition.

The principle of the equalisation of supply and demand applies in all cases.

In order to prevent a possible misapprehension, it may be important to observe, before concluding this chapter, that the price of a commodity must be always such as to equalise the demand to the supply. This principle is equally true, both when the price is disturbed by sudden fluctuations in the demand and supply, and when the trade is in its normal condition, and the price of the commodity consequently approximates to its cost of production. Let us revert to the example just investigated, and assume that a rifle which is ordinarily sold at 5*l.* becomes worth 10*l.* owing to a suddenly increased demand for rifles. It has been before remarked, that, when the demand for a commodity is suddenly increased, its price may temporarily cease to be controlled by its cost of production. The immediate available supply is limited; and it is therefore evident, that the increased demand cannot be imme-

* See Book II. Chap. II.

diately satisfied. The demand of those will therefore be first met who are willing to pay the highest price; but, as the price of the commodity rises, the demand for it diminishes. Hence the price must continue to rise, until at length the demand is so much decreased that it can be satisfied with the immediately available supply, or, in other words, the demand becomes equal to the supply.

Explanation of the process by which supply and demand are equalised when the price approximates to the cost of production.

It now only remains to describe the process which equalises the supply to the demand, when a commodity is selling at its cost of production; or, in other words, when a trade is not disturbed from its ordinary steady condition. Let it again be assumed that a manufacturer of rifles will be adequately remunerated, and will obtain the ordinary profit realised in the trade, if he is able to sell his rifles at 5*l.* each. But, as previously remarked, the demand for any commodity varies, *cæteris paribus*, with its price. Hence it is quite possible that, when rifles are sold for 5*l.*, the demand for them may be either greater or less than the supply. If the first case should arise, and the demand exceeds the supply, then the price of rifles would soon advance beyond 5*l.*, and the manufacturers of rifles would consequently obtain an exceptionally high rate of profit. If, on the other hand, the demand for rifles at 5*l.* each should be less than the supply, the price would become less than 5*l.*, and the manufacturers of rifles would continue their business at a comparative loss. But no branch of industry can permanently continue to be in the state implied by either of the two contingencies just alluded to; the competition of capital will, on the one hand, prevent manufacturers of rifles permanently obtaining an exceptionally high rate of profit; and, on the other hand, manufacturers will refuse permanently to continue their business, if a greater return could be secured by employing their capital in some other investment. Let us, therefore, consider what would really take place under the circumstances supposed.

Case when the demand is brought to exceed the supply.

The case assumes that there are no sudden fluctuations, either in the demand or supply, but that everything connected with the trade is in a steady condition. The cost of producing a commodity is composed of two elements; namely, profits upon capital, and wages of labour; it is therefore evident, that if either of these elements is in-

creased, the cost price of the commodity will also be increased. Thus, when certain wages are paid, the cost price of a rifle may be 5*l.*, but if these wages have to be increased, the cost price of a rifle may advance from 5*l.* to 6*l.* The assumption has been made, that if rifles are sold at 5*l.*, the demand will exceed the supply. Suppose that the price is slightly advanced beyond 5*l.*; the profits of the trade will thus be increased, an additional amount of capital will be brought into the trade, and the number of rifles made will be considerably augmented. All manufactured commodities, however, need skilled labour, and the requisite skill cannot be acquired without considerable training. Hence, when a trade has to be extended, comparatively untrained labourers must be employed. The skilled labourers already engaged in the trade will consequently be eagerly competed for, and their wages will rise. If, however, their wages should rise, the cost of manufacturing the commodity will increase, but a rise in the price of a commodity exerts an influence to diminish the demand; these causes will continue to operate, until at length the supply is made equal to the demand.

Case when the demand is less than the supply.

In a similar way we can explain the process of equalising the supply to the demand, when the demand for a commodity selling at its cost price is less than the supply. Suppose this case to arise with regard to rifles. Let it be assumed that the cost price of a rifle is 5*l.*, and that at this price there will not be so many rifles purchased as are manufactured; the price of rifles must therefore decline; it would however seem that, if they were permanently sold at 4*l.* 10*s.*, the manufacturers of rifles would lose by their trade, because they only realised the ordinary rate of profit even when 5*l.* could be obtained for a rifle. It must however be borne in mind, that some of those engaged in a trade often possess special opportunities for carrying it on profitably; their place of business may perhaps be in an exceedingly favourable situation, or they may themselves have a special aptitude for the business in which they are engaged. Again, as remarked in a previous chapter, those who possess sufficient capital to carry on production upon a large scale often obtain an exceptionally high rate of profit. When, therefore, the supply of a commodity exceeds the demand, two causes will exert an

In both cases an equalising force is exerted.

influence to equalise the demand to the supply. In the first place, if the supply of the commodity is diminished, its cost price will also be diminished, because if less of the commodity has to be produced, only the most skilful workmen in the trade need be employed, and those only need continue the manufacture of the commodity who possess special advantages for producing it most cheaply. In the second place, as the price of the commodity is reduced, the demand for it will increase. These two circumstances, acting conjointly, must at length equalise the supply to the demand.

It has therefore been shown that, in all cases, there is a tendency in constant operation to make the supply of a commodity equal to the demand. This principle is equally true, whether the price of a commodity is simply regulated by its cost of production, or whether the price temporarily ceases to be regulated by the cost of production, in consequence of sudden fluctuations, either in the supply or in the demand.

CHAPTER V.

ON MONEY.

Reasons for considering questions of price before discussing the functions of money.

THE last three chapters have been devoted to an investigation of the laws which regulate the price of various commodities. The course usually followed by political economists, is in the first place to treat of the value of commodities, and to defer any discussion of the laws of price until the functions of money have been fully explained. In pursuing this course, they perhaps adopt a logical method, because money, as a medium of exchange, must necessarily be involved in the meaning of the term price. It has however been thought expedient to adopt the course pursued in the last three chapters, because the investigation of a subject which must always be complicated is rendered more difficult by speaking of the value of a commodity instead of its price; the public almost invariably speak of the price of a commodity, and seldom consider its value by directly estimating the quantity of every other commodity for which it will exchange; moreover, the last three chapters, although relating to price, have not required anything to be assumed, with regard to the laws of money, which was not quite self-evident.

Use of money.

It has been already remarked, that price is a particular case of value. Every country, as it emerges from barbarism into the first stages of civilisation, has found it absolutely necessary to select some substance as a medium of exchange. Without such a medium every trading transaction must be conducted by direct barter; the inconvenience of a system of barter is evident, for if the owner of a stack of corn wished to obtain clothes or fuel in exchange for his corn, he would be obliged to find some

other individuals who are willing to give him clothes and fuel for the corn which he offers. Commerce, hampered by such impediments, could never advance beyond its rude beginning. Consequently, in each civilised nation, some substance is sure to be adopted as a medium of exchange, by the universal consent of society. A medium of exchange provides a standard with which to compare the value of every commodity, and by means of which the exchange of commodities is facilitated in a most important degree. Any substance may be selected as this medium of exchange; it has however been generally found most advantageous, for reasons which will be presently stated, to choose the precious metals as the medium of exchange.

Different substances used for money.

But various other substances have been used for a similar purpose by different nations. The Chinese have used pressed cubes of tea as their money; some African tribes employ the shells termed cowries. It must therefore be borne in mind that it is not essential that money should be composed of some of the precious metals; whatever substance is adopted, by the general consent of society, as its medium of exchange, ought properly to be considered as the money of that community. Thus, in China, money has consisted of those pressed cubes of tea we have spoken of; and, in Africa, the cowrie shells must be regarded as money. The money of our own, and of almost every other country, has so long been made of the precious metals, that we are naturally led to associate money with one or more of the precious metals. If, however, in any country, some substance is made to perform the functions of money, that substance is as justly entitled to be considered money as our own gold and silver coin. Even those nations enjoy the great advantage of possessing money, although they estimate the value of commodities by cubes of tea, and by cowrie shells, and exchange their goods for these substances, instead of buying and selling, as we do, for gold and silver. Such money, it is true, is rude and inconvenient, but even the possession of the rudest money indicates a great advance in civilisation beyond those tribes who have no money at all, and who are, therefore, compelled to conduct every trading transaction by barter. The reason why the precious metals are almost universally employed as money, in preference to any other substance,

will at once become evident by considering the purposes which money has to fulfil. The functions of money may be divided into two leading classes.

1st. Money serves as a measure of value.

2nd. Money is a universal medium of exchange.

The two chief functions of money.

We will proceed to consider the first of these functions. 'Measure of value' may perhaps with advantage be replaced by the expression, measure of wealth. Without some such measure, the amount, either of a nation's or of an individual's wealth, could only be stated by enumerating a long catalogue of commodities. Instead of saying, that a farmer is worth 9,000*l.*, we should be able to form no other estimate of his wealth except by making an inventory of his possessions. The number of cows, horses, pigs, sheep, the quantity of corn, &c. he possessed, would all have to be separately enumerated. The value of a man's property is a meaningless phrase, unless there is some recognised standard of value. The value of a commodity is always supposed to mean its exchange value, for unless it has some exchange value it is not, in political economy, considered to have any value at all. No commodity can be more useful than water, but, as previously remarked, it is not wealth. It has in fact no value, because when, as is usually the case, it can be freely obtained, nothing will be given for it in exchange. But no meaning can be assigned to the expression, exchange value of a commodity, unless it is known for what other commodity it is intended to be given in exchange. It is as correct to say, that the exchange value of a sack of wheat is a ton of coal, or a barrel of beer, as it would be to estimate the value of the wheat by so much gold and silver. Everything, therefore, with regard to the value of commodities, or the amount of wealth, is completely vague and indefinite, until society has agreed to select some particular substance with which the value of all commodities may be compared. Such a substance becomes an universal standard, or measure of value, and thus has attached to it the first of the two characteristics which entitle a substance to be considered as money. It is not necessary to select the precious metals for this standard of value, although they possess for this purpose many advantages which cannot be claimed by other substances.

Money is a measure of value.

Advantages of a universal standard of value.

These might be partly secured by the use of other substances than the precious metals for money.

Suppose a nation agreed to adopt wheat as the general measure of value, the value of all commodities would be referred to wheat as a standard, wealth would be estimated by so many quarters of wheat, and it would, under this supposition, be correct to say, that the price of an article was not so many pounds sterling, but so many quarters of wheat. One of the purposes, therefore, which money is intended to fulfil would be in this manner attained, for there would be one recognised substance to which the value of all other commodities might be referred. But when we proceed to consider the second important function which money is intended to perform, namely, a general medium of exchange, it will at once be understood that it would be impracticable to have such a substance as wheat for the money of a country.

Money is a general medium of exchange.

When a nation possesses not only a measure of value, but also a general medium of exchange, every trading transaction is facilitated in the most important manner. There will then be a standard, by comparison with which, the value of any commodity can be ascertained, and when the value is thus known, the commodity may be exchanged for a certain quantity of the substance thus chosen for the money of the country. But the fundamental characteristic of money is that it is a general medium of exchange; or, in other words, any commodity which may be required can be obtained by money. When, therefore, an individual exchanges a commodity for money, he obtains that which will give him the power of purchasing any article which he may require; in this manner the great inconveniences of barter are obviated, for under a system of barter a person who possessed one commodity could not without great difficulty exchange it for any commodities he might require. For instance, the owner of a quantity of wheat, if he wanted meat, fuel, or clothes, would have to search for those persons who were willing to give him these articles in exchange for wheat. Since an universal standard of value is provided by money, the values of all commodities are known and registered by this standard; or, in other words, the price of all commodities can be ascertained, since the price of a commodity is its value estimated in money. Money, therefore, enables the amount of wealth to be estimated, and when the price

Importance of these functions of money.

of commodities is ascertained, the purchasing power of any sum of money is known.

Qualities desirable in substances used for money.

The chief purposes which money is intended to serve have now been explained, we can therefore at once pass on to consider the particular qualities which should be possessed by any substance which is used as money. In the first place, it is most important that any general standard or measure should vary as little as possible. For instance, all distances are referred to a certain standard unit of length. How endless would be the confusion if this standard varied! A mile represents the same distance as it did a century since, and therefore, when a mile is mentioned, there can be no doubt as to the distance intended to be expressed Weight, in a similar manner, is referred to a certain invariable standard; and, therefore, if it is said that the weight of a body is so many tons, there can be no ambiguity as to the weight which is meant to be described. It is, of course, quite as important that a standard of value should be equally invariable. In order to secure this invariability, it is not alone sufficient that the *terms* of a monetary standard should remain constant. It is obvious that the money of our own country could not be an invariable standard of value, unless a pound contained always the same amount of gold, a shilling the same amount of silver, and a penny the same amount of copper. This, therefore, points to one requisite for preserving the invariability of a monetary standard, but it is by no means the only requisite. If gold and silver were liable to as great fluctuations in value as wheat and cotton, it is manifest that money would be no uniform standard of value, although a pound sterling might always contain the same quantity of gold, and a shilling the same quantity of silver. The value of wheat and cotton fluctuates with almost every variation in the weather, and with almost every change in the politics of a nation. Unpropitious seasons have often been so destructive to the harvest, that wheat has been forced up almost to a famine price. These seasons of scarcity are now, so far as concerns our own country, in some degree obviated by free trade, since we are now no longer restricted to our own soil for our supplies of corn. But even since the passing of free trade, there have been

As a standard of value it should be invariable.

Thus the different denominations of money should be constant.

The value should not vary suddenly.

Advantages of gold and silver over other commodities in this respect.

extremely great variations in the price of wheat. In the year 1854, wheat was 90*s.* a quarter, in 1856 wheat was 40*s.* a quarter. The value, therefore, of any commodity not liable to such fluctuations would be, when compared with wheat, twice as great in 1856 as in 1854, assuming that gold remained constant. A ton of coals, for instance, would sell at the same money in 1856 as in 1854, but it would exchange for more than twice as much wheat in the former year as in the latter. If, therefore, wheat were chosen by a nation as a general standard of value instead of gold and silver, the value of all commodities estimated in wheat, or, in other words, the price of all commodities, might rise more than 100 per cent. in the short space of two years. Such great and sudden irregularities in price would throw commercial transactions into inextricable confusion. It is, therefore, evident that a substance should be selected as money which is subject to the smallest possible fluctuations in value; upon this quality mainly depends the efficiency with which money can fulfil the functions which are required from it, as a standard of value.

As a medium of exchange money should possess an intrinsic value,

Let us now enquire what qualities money ought to possess, in order that it should become a convenient medium of exchange. In the first place, the substance chosen as money must possess an intrinsic value of its own. This may appear to be contradicted by the fact that a portion of the money of England and many other nations, consists of bank notes. In England, a person considers a Bank of England note for 10*l.* to be in every respect as valuable as ten sovereigns, yet the note has no intrinsic value whatever; thousands of such notes might be manufactured for a few shillings; whereas the ten sovereigns for which one of these notes can be exchanged have an intrinsic value of their own; if they were melted, they would be as valuable in bullion as in coin. The bank note derives none of its value from the substance of which it is composed; it is simply a written warrant of a promise to pay, whenever demanded, the sum which it represents. If all believe that this promise is certain to be strictly fulfilled, there can be no reason why the note should not be as freely accepted as money. But a nation can never feel this entire confidence, either in the promise of the

state or of private individuals, until government becomes firmly settled, and commercial credit securely established. It is therefore necessary that the substance which is chosen as money should possess an intrinsic value. It has been explained, in a former chapter, that a substance acquires value from the conjunction of two qualities: in the first place, labour must be employed to obtain it, for the most essential necessaries of life, such as water and air, have no exchange value, if spontaneously supplied by nature; secondly, no substance can have value unless it can be made to satisfy some want, or gratify some desire of man. Hence, in order that the substance chosen as money should possess an intrinsic value, it must in the first place require labour to obtain it, and secondly, it must be regarded as useful for other purposes than being employed as money.

and should be of great value in a small bulk.

The last requisite possessed by money upon which we shall remark is, that it should be a commodity sufficiently expensive to contain a great deal of value in a small bulk. If this were not so, whenever any valuable article was sold, the money which it realises would be extremely cumbrous, and inconvenient to carry about, in consequence of its great weight and bulk. If we possessed no money but our copper coinage, the copper money equivalent to ten sovereigns would be a heavy load, requiring the strength of a strong man to bear; and the inconvenience would be still greater if a less valuable metal than copper, such as iron, were selected.

Advantages possessed by gold and silver.

Having now remarked upon the qualities which ought to belong to a substance which is used as money, we shall be in a position to appreciate the great advantage which the precious metals possess, as money, in comparison with any other substances. The first requisite is, that the substance of which money is composed should be liable to as few variations in value as possible. Gold and silver both fulfil this condition in a very striking manner. As a general rule, the average productiveness of gold and silver mines does not vary from year to year. Changes of temperature so much affect the growth of agricultural produce, that the abundant crop of one year may be succeeded by great scarcity in the next. Such causes, however, can in no way influence the productiveness of

They do not suddenly vary in value from year to year.

mines. The demand for some commodities varies almost from day to day, and causes those constant fluctuations in price alluded to in the last chapter. Gold and silver, except when used as money, are chiefly employed for the manufacture of ornaments, and various articles of luxury. Now it is evident that the demand for gold and silver plate does not vary greatly from year to year. The last few years may seem to offer an exception to the constancy in the value of the precious metals, for since the discovery of the gold mines of California in 1848, and those of Australia in 1850, the annual yield of gold has increased at least 300 per cent. There is no question of the day more important for the political economist to discuss than to trace the effects of these recent gold discoveries. This must be reserved for a separate chapter. Although it is not improbable that the value of gold may in future years be greatly depreciated by these gold discoveries, yet such sudden changes in the annual yield of gold are extremely rare. In fact, history affords no other similar instance, except the discovery of the gold and silver mines of the American continent, at the time when the New World first became known to the Old. It is not therefore necessary for us to qualify our remark, that gold and silver are, as a general rule, subject to less frequent variations in value than almost any other substances.

They possess intrinsic value.

The second of the enumerated qualities which ought to belong to money is, that it should possess an intrinsic value of its own. Nations, even from a remote antiquity, have always placed a great value upon gold and silver. Ancient remains prove that the most costly and highly wrought ornaments have long been manufactured from gold and silver. It is no wonder that ornaments in every age should have been made from these metals; their singular brightness gives them beauty, and it is a beauty which is scarcely effaced by time. Iron soon rusts and decays, copper soon becomes corroded, but golden ornaments are dug up from the bogs of Ireland in almost as perfect a state of preservation as when they adorned the primæval inhabitants of that island. The great malleability of gold and silver gives the workman abundant opportunity to display his artistic skill. Moreover, gold

and silver have always been sufficiently rare to be esteemed for their scarcity.

They have great value in a small bulk.

The great value possessed by these metals gives them the third essential quality which ought to belong to money; namely, that it should contain a great deal of value in a small bulk. It should also be remarked, that gold and silver possess other qualities which make them specially adapted to fulfil the functions of money; these metals are extremely durable, and they can be coined with facility, because they can be divided into portions containing any assigned quantity or weight.

Copper money.

All these considerations combined cause gold and silver to fulfil the purposes of money far more completely than any other substances. It is true that our own country, and several others, have copper money in addition to gold and silver. Copper, though very much less valuable than gold or silver, is very convenient for small payments. A piece of gold or silver, which in value would represent a penny, would be almost too small an object to be perceived; and on the other hand, if copper were used as the only money, any large payment would require a weight of copper money too great to be carried by an individual.

Convenience of taking either gold or silver as the only standard.

Although the metallic currency of this country is composed of gold, silver, and copper money, yet it is found convenient that only one of these substances should be a general standard of value. The substance thus selected is gold. Other countries, however, have adopted silver instead of gold, as a general standard of value. We shall be able easily to explain why gold is a better standard of value than silver. In the first place, gold is the more costly metal of the two, and it therefore contains greater value in small bulk. Secondly, it has been found by experience that the cost of obtaining gold, and consequently the value of gold, varies less than the value of silver, and sufficient has already been stated to show the importance of possessing, as a standard of value, that substance whose value is most uniform.

A double standard is undesirable,

It has, however, been frequently proposed to make both gold and silver a general standard of value, and the adoption of such a plan would involve what is technically termed a double standard. Various reasons may be stated which will prove that such a double standard is extremely

undesirable. We have already pointed out the inconveniences consequent upon any variations in the value of the substance which is adopted as the standard of value. Gold and silver are both liable to fluctuations in value: these metals, for instance, may at any time be cheapened, in consequence of the discovery of productive mines, and, on the other hand, the cost of obtaining gold and silver may be increased by the gradual exhaustion of the richest gold and silver mines. If, however, gold and silver are both adopted as a standard of value, the uniformity of this standard will be affected by variations in the value of two substances instead of one. For instance, let it be supposed that the value of silver is reduced five per cent., in consequence of the discovery of some rich silver mines. Let it also be assumed that nothing has occurred to affect the value of gold; consequently, the value of silver, estimated in gold, will be depreciated five per cent.; or, in other words, an ounce of gold will exchange for five per cent. more silver than it did previously. Now a double standard implies that any person who has a payment to make can use his own discretion as to whether he shall pay the amount in gold or silver. If, therefore, the case just supposed should arise, and the value of silver should be depreciated five per cent., it is manifest that every person who had a debt to discharge would take advantage of this depreciation, and all payments would consequently be made in silver instead of in gold. The result would manifestly be, that the amount to be paid would be reduced five per cent., and the amount to be received would consequently in every case be diminished by a similar amount. It is evident that this unfortunate and most mischievous disturbance in the terms of monetary contracts would be avoided if gold was the only standard of value.

because it is affected by variations in the value of two substances.

Regulations which preserve a single standard in England.

It must not be imagined that England has a double standard, because silver and copper money form a part of our metallic currency. Our silver and copper money must be regarded as subsidiary coins, and by a very simple arrangement, all the advantages are enjoyed arising from the employment of such coins, without any of the inconveniences which belong to a double standard. It is fixed by law, in this country, that each silver coin should con-

tain a certain quantity of silver, and it is also further enacted that these coins should exchange for, or, in other words, be equivalent in value to, a fixed quantity of gold. Thus a shilling always contains the same quantity of silver, a sovereign always contains the same quantity of gold, and twenty shillings are made equivalent in value to one sovereign. The silver, however, which is contained in twenty shillings is not really equivalent in value to a sovereign, for if the shillings were melted down, the silver which they contain would not purchase so large a quantity of gold as is contained in a sovereign. The Mint, therefore, obtains a profit on the silver which it coins; in fact, our silver coinage may be regarded as a slightly depreciated currency. The Mint, however, is not permitted to issue more than a certain amount of silver coinage, and the reason why a silver coinage is, as it were, slightly depreciated, may be readily explained. For suppose that the weight of gold in a sovereign, and the weight of silver in a shilling, had in the first instance been so arranged that the quantity of silver contained in twenty shillings had been exactly equivalent in value to the gold contained in a sovereign. If this plan had been adopted, any subsequent rise in the value of silver compared with gold would have made it profitable to melt silver coin, and sell it as bullion. The silver coinage of the country would thus be constantly liable to be absorbed, for the purpose of being melted down; therefore, one of two things would occur, either the country would soon lose its silver coinage, or the Mint would have to bear a heavy loss; since, if silver rose in value compared with gold, the Mint would manifestly lose upon all the silver coined, and an unlimited amount might be demanded as long as it continued profitable to melt silver coin.

Reasons for a slight depreciation of the silver coinage.

Such a contingency is, however, obviated by the judicious regulations which control the Mint. For since twenty shillings, although they exchange for a sovereign, do not contain an amount of silver equivalent in value to a sovereign, it is manifestly unprofitable to melt down our silver coinage, and sell it as bullion, unless there should be a very considerable rise in the value of silver compared with gold. It is no doubt quite possible that such a rise in the value of silver may take place; but the plan adopted

Regulations of the Mint in England

and France.

by our Mint prevents any profit being realised by the melting of silver, unless the rise in the value of silver should be very considerable. In the currency of France, the amount of silver contained in its silver coinage is much more nearly equivalent in value to the gold coinage for which it exchanges, than is the case in our own currency. For instance, the gold coin termed a 'Napoleon' is said to represent twenty 'francs'; and if four 'five-franc' silver pieces were melted down, the silver which they contain is as nearly as possible equivalent in value to the gold contained in a 'Napoleon.' Within the last ten years, the value of silver has slightly risen, in consequence of the large quantity of silver which has been sent to the East; and the result has been, that this rise in the value of silver has rendered it profitable to melt the silver coinage of France, and sell it as bullion. The consequence of this has been, that almost the entire silver coinage of France has been melted and sold as bullion, whereas the rise in the value of silver has not been yet sufficient to enable a profit to be realised by the conversion of our own silver coinage into bullion.

Reasons for limiting the amount of a legal tender in silver.

We have described our own silver coinage to be, as it were, a slightly depreciated currency; it might therefore be supposed, that a person would incur a certain risk of loss, if he were compelled to accept silver instead of gold, in payment of a debt due to him. But in order to obviate such an occurrence, a law has been passed, which enacts that silver shall not be a legal tender for any amount exceeding 40*s.*, and copper coinage is not a legal tender for any amount exceeding 5*s.* Silver and copper money may, therefore, be regarded as merely subsidiary coins: and thus all the advantages of having convenient coins to discharge the smallest payments, are obtained without any of the disadvantages which belong to a double standard.

CHAPTER VI.

ON THE VALUE OF MONEY.

Distinction between the popular and scientific sense of value of money.

TO the expression 'value of money,' an ambiguity of meaning is attached, which it is necessary clearly to explain. The value of money has a popular signification, which is quite distinct from its scientific meaning. If the 'city article' of any daily newspaper is perused it will be perceived that the value of money is considered to be synonymous with the current rate of interest. Thus the value of money is said to be increasing, when the rate of interest is rising. The Bank of England is the great regulator of the money market, and the rate of discount which is paid for advances made at the bank, controls the terms upon which advances are made by other discount houses, and fixes the interest allowed by banking establishments upon money deposited with them. In the language therefore of every-day life, the value of money is considered to be represented by the bank rate of discount; the value of money is thus said to rise, as this rate of discount advances, and to fall, as the rate of discount declines.

The scientific sense of this expression.

It may be gathered, from the previous remarks on value and price, that the expression 'value of money' has another and very different meaning. In political economy, the greatness or smallness of value is estimated by the power which a commodity has to obtain other commodities in exchange for it. If a sack of wheat will at the present time exchange for a greater quantity of coal, of meat, and of every other commodity than it would have exchanged for a twelvemonth since, it may be said that the value of wheat has risen. If, on the other hand, the wheat exchanged for a less instead of a greater quantity of coal, meat, &c.,

the value of wheat would be described as having fallen. In a similar manner, if a certain quantity of gold would at the present time exchange for a greater quantity of coal, of meat, and of every other commodity than it would have exchanged for a twelvemonth since, it would be said that the value of gold had risen; on the other hand, it would be affirmed that the value of gold had declined, if the gold exchanged for a less, instead of a greater quantity of those articles just enumerated. But when it is said that gold exchanges for a greater quantity of any commodity, it is, in fact, asserted that the price of this commodity has fallen; and again, when gold exchanges for a diminished quantity of any commodity, the price of the commodity has increased. Suppose that, a twelvemonth since, the gold contained in two sovereigns would exchange for a sack of wheat, and that now this gold exchanges for two sacks of wheat, it is manifest that the value of gold, estimated in wheat, has increased twofold in the course of a twelvemonth, and consequently the price of wheat during this period has diminished in the same ratio; for wheat has, according to this hypothesis, during the time declined in price from 40*s.* to 20*s.* a sack. When therefore, in political economy, the value of the precious metals, or the value of money is spoken of, the purchasing power of money is referred to; or, in other words, the power which money has to obtain other commodities in exchange for it. It must therefore be distinctly borne in mind, that although men of business consider the value of money to be represented by the rate of interest, yet the signification which is here attached to the expression 'value of money' is such as to describe the value of money to be great when prices are low, and to be small when prices are high.

The value of gold rises as prices fall, and falls as prices rise.

A few lines above it was remarked, that the value of money is the same as the value of the precious metals of which it is composed. This statement may perhaps require some elucidation. Our readers have no doubt frequently observed, that the Mint price of gold is 3*l.* 17*s.* 10½*d.* per oz. This price is fixed by law, and if an individual takes gold in the form of bullion to the Mint, the authorities are compelled by law to purchase it from him, at the price of 3*l.* 17*s.* 10½*d.* per oz. The price of gold therefore, considered as metal, is by act of parliament fixed at an

The price of gold is said to be fixed by law.

invariable amount. This is not the case with any other metal, for we are all aware that the price of a ton of iron, or of a ton of tin, varies greatly from time to time. It will now be explained what is really meant by the price of gold being thus permanently fixed by law.

Erroneous conclusions from this statement.

The fixed price which is given to gold by law is not unfrequently the basis of most erroneous conclusions. Some persons who profess to be authorities on monetary affairs decide, in the most off-hand manner, that the value of gold has not been affected by the recent gold discoveries, grounding this opinion upon the fact that the price of gold has remained unchanged. They say an ounce of gold now realises exactly the same price, namely 3*l.* 17*s.* 10½*d.*, as it realised ten years since. How then, they ask, can the value of gold decline, whilst its price remains unaltered?

Its real meaning.

But this constancy in the price of gold only proves that the quantity of gold in a sovereign remains the same. The Mint authorities give 3*l.* 17*s.* 10½*d.* for an ounce of gold, because they know that there is just sufficient gold in an ounce to manufacture three sovereigns, and that portion of a sovereign which is represented by 17*s.* 10½*d.* Since, therefore, the price of gold remains constant, we may speak of gold and bullion as synonymous with the value of gold when converted into coin. The value of gold money, therefore, is regulated by the same laws as those which regulate the value of gold in bullion. In order, therefore, to investigate the value of money, it will only be necessary to apply those principles already enunciated which regulate the value of mineral products.

The value of gold is regulated by the ordinary laws of value.

It is very important to keep most distinctly before the student's mind, that money is composed of substances, the value of which is regulated in the same manner as any other ordinary commodities of trade. The subject of money is rendered confused and difficult, because, in consequence of the phraseology which is often employed, a belief is encouraged that there is something mysterious connected with every economical question relating to money. It will be remembered that in discussing the laws of value and price, commodities were divided into three distinct classes, and these three classes were separated from each other respectively by the following characteristics. In the first class were placed all those articles whose

supply was absolutely limited; in the second class, all produce was included the supply of which would, if increased, involve a greater proportionate expenditure of labour and capital; and, in the third and last class, were enumerated all commodities whose supply might be increased without any practical limit.

Applicable to agricultural and mining produce.

The commodities belonging to the second class were described, in general terms, as agricultural and mineral produce. The laws of value and price which apply to this class were expounded in Chapter III., Book III. These particular laws therefore will have to be applied in order to establish the principles which regulate the value of money; because, as above remarked, the value of money, and the value of the precious metals of which it is composed, are synonymous expressions. It is hardly necessary to repeat, that the fundamental conclusion established in the chapter just referred to, may be expressed in the following way. If the demand for agricultural or mineral produce renders it necessary so to increase the supply that resort must be had to less productive sources, the price, or, in other words, the value of such produce, will rise, in order to compensate the augmented cost of production. It is true that this law is not brought so distinctly or so immediately into operation, in the case of mineral as in that of agricultural produce, because mining is far more speculative and uncertain than agriculture. This uncertainty is most strikingly apparent in those mines which are worked for the precious metals. Thus the gold-digging of Australia has the character of a lottery. If a man cultivates a plot of ground, he can calculate approximately the average produce it will yield, and the profit that will be left to him; but an Australian gold-digger cannot know beforehand whether the claim upon which he purchases permission to dig will prove a complete blank, or may contain nuggets sufficient to make him a rich man in a few days. Although it may appear impracticable to apply the principles of economic science to a branch of industry so speculative and so irregular as gold-digging, yet the Australian diggers are of course influenced, in commencing and continuing gold mining, by the average amount of the gains realised. If the gold-fields become more productive, a greater number of diggers would be

Although the operation of the law is concealed by the uncertainty of mining operations.

attracted to them, and the same effect would be produced if the gold that was found became more valuable.

Causes which may raise the price of agricultural produce.

Agricultural and mineral produce, consistently with the law above enunciated, become more valuable, or, in other words, rise in price, as it becomes necessary to increase the supply, in order to meet an increased demand. An increased demand for corn and meat is caused by an increased consumption of food, and we are all aware of the various circumstances which may affect the demand for such minerals as coal, copper, and iron; the demand for these minerals increases with every extension of commerce or trade. Let us, therefore, enquire, Is there any difference in the nature of the causes which affect the demand for the precious metals? Gold (and the same remark applies to silver) is devoted to two distinct purposes.

Do they operate in the case of gold?

The two uses of gold.

1st. Gold is employed as an ordinary article of commerce.

2nd. Gold is the substance from which a great portion of the money of most countries is made. By far the larger part of the gold annually produced is devoted to the last of these two purposes.

Gold as used for purposes of art

Gold is, however, employed in a great variety of ways, both in arts and manufactures. But it is difficult even approximately to estimate the quantity which is thus absorbed. From the stamp which is in this country placed upon gold and silver plate, we are enabled to ascertain that the gold plate which is annually manufactured does not in value exceed 40,000*l.* The most competent authorities differ greatly in their calculations with regard to the amount of gold which is used in jewellery, gilding, and in various other ways. Mr. Jacob supposed that, thirty years since, an amount of gold equivalent to 2,000,000*l.* was thus annually absorbed. If his estimate was correct, this amount has probably been now doubled; it is, however, generally believed that Mr. Jacob's estimate was much too high. At any rate, the gold which is required for industrial purposes cannot vary greatly from year to year. Hence, if the supply of gold is suddenly doubled or trebled, as it was twelve years since by the discovery of the rich deposits in Australia and California, it is evident that the large additional supply must be almost entirely converted

does not greatly vary in amount. Hence the increased produce is chiefly used for money.

into gold coinage. It therefore appears, that any increase or decrease in the quantity of gold which is used is almost solely determined by the amount of gold which is manufactured into money. We must therefore, in investigating the demand for gold, enquire into the causes which regulate the quantity of money which each country may require. There is little difficulty in explaining the circumstances which regulate the particular demand a country has for the various commodities it consumes. Thus England needs so many sacks of wheat, because there are a certain number of people to be fed. The quantity of cotton goods which the English annually require for their own use varies with the price at which these goods can be sold; each successive reduction in price gives a greater number the power to purchase them, and consequently the demand increases as the price is reduced. England's gold coinage, at the present time, may be roughly estimated at 45,000,000*l.* sterling; each year, on an average, about 2,000,000*l.* is perhaps added to this coinage; this, therefore, may approximately be regarded as the amount of gold which England annually requires to maintain her metallic currency. But why has England this particular demand for gold coinage? Why should she not keep in circulation twice as much gold coinage? In giving an answer to these questions an explanation will be afforded of the principles which regulate the distribution of the precious metals over the various countries of the world.

What determines the amount of money employed.

It would be better in the first place to suppose, for the sake of simplicity, that England has no other money except a metallic coinage. It will afterwards be considered whether the conclusions which are arrived at on this supposition have in any way to be modified, because England possesses paper money, such as bank notes, in addition to her coinage.

Assumption made for simplicity.

It will be necessary, as a preliminary enquiry, to investigate the general causes that regulate the quantity of money which a nation requires to keep in circulation. It is almost self-evident that the amount of money which a nation needs must bear some proportion to its wealth. England annually produces and accumulates a much greater amount of wealth than Ireland. A much larger quantity of commodities will therefore each year be bought

General causes which determine the quantity of money in circulation.

and sold for money, in England, than in Ireland; in order to carry on this exchange, a greater amount of money will be required in the one country than in the other. The population of England also much exceeds that of Ireland. English labourers are certainly as well remunerated as Irish labourers; wages are generally paid in money, and therefore, as far as the payment of wages is concerned, England will require a much greater amount of money than Ireland. But we need scarcely remark further upon this subject, as it must be evident that the amount of money which a nation requires to carry on all its transactions of buying and selling must bear some proportion to its wealth and population. The vague expression '*some proportion*,' is advisedly used in order to warn the student against the fallacy of supposing that the money which a country keeps in circulation is an accurate measure of its national wealth. The error of such a supposition will be clearly shown, if the mode of conducting the trade and commerce of a country is for one moment considered.

It is in some proportion to the wealth and population of a country.

A vast amount of wealth is daily bought and sold without the transfer of any money; in fact, it is not too much to state, that money is rarely employed in any of those large transactions which constitute wholesale trade. The Leeds manufacturer who purchases wool from the stapler pays for it by a cheque, and not by gold or silver coin; and when he sells the cloth which he has manufactured, he does not receive gold or silver from the purchaser, but he is invariably paid by a cheque, or by a bill of exchange. The cheques and bills of exchange which he may have thus issued on his own credit are returned to his bank, and the amount of money which they represent is deducted from the aggregate amount of bills and cheques which he may have received from others, and deposited at the same bank; the balance which is left represents so much wealth which the manufacturer keeps with his banker, either for purposes of convenience or for security. It thus appears, that a manufacturer who may produce in the course of a year 100,000*l.* worth of cloth, may never have in his possession a greater amount of money than is sufficient to pay the weekly wages of his labourers, and to make such daily payments as are usually discharged by ready money.

Means by which the quantity of money in circulation is economised by manufacturers.

As another illustration, it may be stated that an in-

For private persons.

dividual whose personal expenditure is 1000*l.* a year, need never have more than a very small amount of money in his possession at any one time. He will discharge all his larger payments by cheques, and he will only require money to pay the wages of his servants, and to meet small current daily expenses, such, for instance, as buying railway tickets, paying cab fares, &c. It is consequently manifest that the money which any individual has in his possession forms a very insignificant part of his aggregate wealth. Although it is therefore impossible to tell, from any *d priori* reasoning, whether the wealth of a country is fifty times or a hundred times as great as the amount of money which is kept in circulation, yet it may nevertheless with certainty be concluded that, as the wealth and population of a country increase, a greater amount of wealth is bought and sold for money. Such a conclusion is correct, because although a great amount of wealth is exchanged without the transfer of money from one individual to another, yet money is required, and is always used in certain transactions, and these transactions increase both in number and in amount as the wealth and population of a country increase. Thus labourers receive their wages in money. The wage-fund of the country increases with every advance in its population and wealth, but a larger wage-fund implies that a greater amount of money is employed in paying the wages of the labourers. Again, every individual uses money to discharge most of his smaller payments, such as the purchase of railway tickets, the hiring of cabs, the settling of hotel bills, &c. But as the wealth and population of a country increase, more will be spent in railway tickets, cab fares, hotel bills, &c., and, consequently, a greater amount of money will be required for these purposes.

Hence, though the absolute amount is uncertain, it increases with the increase of wealth and population.

In order still further to show the difficulty of assigning any definite proportion between the wealth of a country and the amount of money kept in circulation, it may be mentioned that the amount of money which is required to carry on the trade of a country may partly depend upon the number of times a commodity is bought and sold before it is consumed. To illustrate this, suppose that a sack of flour is bought and sold ten times, to ten different individuals, before it reaches the baker who

The amount of money is also affected by the number of commercial transactions.

bakes it, and that each time the flour is paid for in money. It is manifest that this buying and selling will put as much money in circulation, or, in other words, will require the use of as much coin, as if ten sacks of flour had been at once sold by the miller to the baker.

Two principles at which we have arrived.

Sufficient has now been said to establish the two following principles, which regulate the quantity of money required to be kept in circulation:

1st. The amount of money required to be kept in circulation depends upon the amount of wealth which is exchanged for money. Hence, *cæteris paribus*, the amount of money in circulation ought to increase as the population and wealth of a country advance.

2nd. The amount of money required to be kept in circulation also depends upon the number of times commodities are bought and sold for money, before they are consumed.

Application to the equalisation of demand and supply of gold.

The question now arises—Do the causes just described as regulating the demand for the precious metals, afford any explanation of the agency by which the demand and the supply of the precious metals are made to equal each other?—the demand never being in excess of the supply, or the supply in excess of the demand.

With regard to any other commodity, there is, as we have shown, no difficulty in explaining this process of equalisation; for the adjustment of the demand to the supply, and *vice versâ*, is always effected by a rise or fall in price. An excess in the supply beyond the demand means, that at the price at which any particular article of commerce is offered for sale, there are not sufficient purchasers to take the whole quantity which is offered. But this apparent superfluity is, after all, a mere question of price, for if the price be lowered, new purchasers will at once come into the market, and there will cease to be an excess in the supply. As soon as the price is sufficiently reduced there will be purchasers for the whole of the commodity which is offered for sale. The demand for a commodity always varies with its cheapness, although the ratio of this variation cannot be numerically defined. It is not only different for different commodities, but it also alters with every change in the economic condition of the country. As an example, Mr. Gladstone has been con-

Method by which this is effected in other cases,

fident in his belief that a reduction of one hundred per cent. in the price of inferior French clarets will cause these wines to be purchased by classes of society in this country who never before have purchased them, and that therefore the consumption of this wine will increase much more than one hundred per cent. As another example, it is perhaps not too much to say that at the present day even the poorest are generally able to obtain as much bread as they require, and therefore it is not probable that the demand for bread would be doubled, or, in other words, that twice as much bread would be consumed, if the price of bread were reduced one half. But although we cannot beforehand define the exact point to which the price of any commodity must either rise or fall to adjust the demand to the supply, yet there can be no doubt as to the agency by which this adjustment is effected: when the demand exceeds the supply the price will rise, and thus diminish the demand; when, on the other hand, the supply exceeds the demand, the price will fall, and thus increase the demand. But it would be naturally asked, Can the demand and supply of the precious metals be adjusted in the same manner? for it may be said the price of gold is invariable; it is fixed by law at 3*l.* 17*s.* 10½*d.* an ounce, and, therefore, it would seem contradictory to assert that an adjustment of the demand and supply of gold is effected by a rise or fall in its price. This is a difficulty which must be clearly explained.

viz. by rise and by fall of prices.

Does this apply to gold?

It has been frequently stated that the price of any commodity is an expression synonymous with its value estimated in gold, or in any other substance which is selected as money. It is, therefore, an evident contradiction to speak of the demand and supply of gold being adjusted by a rise and fall in its price. The price of gold is, in fact, a meaningless expression, since, according to the signification which we have just attached to the word price, the price of gold means the value of gold estimated in gold, and this is a phrase which can have no meaning. Let, therefore, the expression, 'value of gold' be substituted for 'price of gold,' and this substitution will enable us to escape from our apparent difficulty. The value of gold accurately varies in the inverse ratio of the price of commodities. If the prices of all commodities rise one

We must substitute value for price.

hundred per cent., the value of gold falls one hundred per cent., for the same quantity of gold will exchange for or purchase only half as much of each commodity. In the absence, therefore, of any counteracting circumstances, if the prices of all commodities rise one hundred per cent., twice as much gold or silver is required each time any commodity is purchased; and there must consequently be twice as much gold and silver in the country circulating in the form of money. The following principle can therefore be enunciated:—The amount of gold actually in circulation varies, *cæteris paribus*, in the direct ratio of the price of commodities. If the prices of all commodities rise, each purchase requires an increased amount of money. Hence more money is kept in circulation, or, in other words, the quantity of metal employed is increased.

Demand for gold varies directly with prices.

The following is a summary of the somewhat complicated process by which the quantity of gold and silver in circulation is regulated.

Summary of the process

The greater is the quantity of coin in circulation, the higher, *cæteris paribus*, will be the price of commodities. But as the price of commodities rises, the value of gold, or the value of any other substance out of which money is made, declines. If the value of gold diminishes, the profits of the miners who produce this gold must diminish, and when the profits are thus reduced many will be discouraged from gold mining, and the supply of gold will consequently be also diminished.

We shall now be able readily to explain the means by which the demand for gold is equalised to its supply. It is necessary in the first place to enquire what is meant by a country's demand for the precious metals; in order to simplify this enquiry, let it be supposed that such a metal as gold is employed for no other purpose except to be coined into money. This supposition will much simplify the investigation, and will not in any sensible degree affect the correctness of the ultimate conclusions; for, as previously stated, the quantity of gold used for the ordinary purposes of art and manufacture is subject to very small variations from year to year.

by which the demand for gold is equalised to the supply.

According to this assumption it will be correct to say that the amount of gold coinage which a country requires determines its demand for gold. It has already been

If the wealth of England were to in-

crease, either the amount of money must increase or the value of gold must increase.

remarked in this chapter, that the amount of coinage which a country keeps in circulation is primarily regulated by the amount of wealth which is exchanged for money, and by the number of times which any of the commodities that compose this wealth are bought and sold. If, in the absence of any counteracting circumstances, England's wealth were doubled, and if in every trading transaction the amount of wealth bought and sold were doubled, England would require twice as much money in order to effect her transactions of buying and selling. But in what sense is an increased amount of money necessary? What would be the consequence if a larger amount of money were not brought into circulation? These questions will be answered by showing, in the first place, that the increased quantity of money is required in order to preserve general prices unchanged; and that, secondly, if the money were not forthcoming, the prices of all commodities would decline, or, in other words, the value of gold would be increased.

Hypothetical case investigated.

An investigation of the following hypothetical case will substantiate these propositions. Let it be supposed that the material wants of England's entire population are suddenly doubled, and that an adequate supply of commodities is spontaneously provided to meet this increased demand. According to this hypothesis the supply of every commodity except money would be augmented; each person who before purchased one loaf of bread, one pound of meat, and one coat, would now purchase two loaves, two pounds of meat, and two coats. But since he possesses no more money than he did when his material wants were satisfied with only half the amount of commodities he now requires, he and every other individual can only now give the same quantity of money for two loaves, two pounds of meat, and two coats, as they before gave for one loaf, one pound of meat, and one coat. If, however, this be the case, bread, meat, clothes, and every other article must have declined one half in price. It is therefore evident that, in this imaginary case, where circumstances have occurred which doubled the demand for money without its supply being increased, the price of all commodities will be diminished one half, or, in other words, the value of gold will be doubled; buying and selling, however, will not be inter-

If the demand for money increases faster than the supply prices fall.

fered with, the people will not be prevented satisfying their demand for commodities, nor will less material wealth be produced and consumed.

All variations in price are undesirable.

Again, it would be said that a nation requires, and therefore has a demand for, a greater quantity of coinage, if her population and wealth should increase; but, in this case, the greater quantity of coinage is required in order to prevent prices from declining, for if the greater quantity were not forthcoming, trade would not be prevented from developing, the production of wealth would not be stopped, but the prices of all commodities would inevitably decline. This general decline in price is quite as undesirable as a general rise in prices, for if prices either suddenly rise or suddenly fall the conditions of every monied contract are immediately altered; the annuitant, for instance, who is in the receipt of his 100*l.* a year, may suddenly find, if there is a general rise in the price of commodities, that his annual income is only one half as valuable, or, in other words, will only purchase him one half as much of the necessaries and enjoyments of life. On the other hand, if prices suddenly fall, the burden of any fixed money payment will be at once increased; thus the farmer who is bound to pay 500*l.* a year as rent to his landlord might be seriously impoverished, because this 500*l.* would represent twice as much agricultural produce. It is, therefore, most desirable that the value of gold should remain as constant as possible. Hence, if an increase of population and wealth causes a country to require a greater amount of coinage, the demand for gold and silver which is thus produced represents a real want.

The average price of commodities is determined by the cost of production of gold.

Although it is clearly important that prices should not vary, the question now arises, Why should prices happen to be what they are at any particular time? Why, on the one hand, should there not have been a smaller production of gold, and lower prices—or why, on the other hand, should there not be a greater production of gold, and higher prices? The gold mines of the world have never in one year yielded more than a small portion of what they might have yielded if more labour and capital had been employed upon them. But this increased amount of labour and capital has not been embarked in gold mining, precisely for the same reason that a greater quantity of

labour and capital has not been employed upon the mines of Cornwall. If the price of copper was greatly increased, then copper mining would become a more profitable speculation. There would be a greater inducement offered to extend mining operations, and an increased amount of copper ore would inevitably be raised. If, on the other hand, the value of copper were diminished, the profits of copper mining would also be diminished, and a smaller quantity of copper ore would be annually raised. If, in the same way, the value of gold were to increase, or, in other words, if general prices were to decline, an increased quantity of gold would be annually produced. If, on the contrary, the value of gold were to fall, or general prices to rise, the profits of gold mining would be decreased, and the annual yield of gold would diminish, because with the diminution in the profits of gold mining there would be less inducement to employ labour and capital upon gold digging. An increase in the demand for gold is evidenced by a fall in the price of commodities; but, as we have just stated, such a fall in general prices stimulates an increase in the annual yield of gold, and in this manner an agency is constantly brought into operation to equalise the supply of gold to the demand, or, in other words, to preserve a uniformity of general prices. The process is exactly analogous to the equalisation of the supply to the demand in the case of every other commodity. If the demand for cotton goods increases, the price or value of cotton goods will rise, but a rise in the price of cotton goods causes their supply to be also increased. The reason, therefore, why there is an apparent exception in the case of gold arises from this circumstance. An active demand for any other commodity is characterised by a rise in its price or value. The same holds true with regard to gold, but since the price of gold is a meaningless expression, it is necessary to say that an increased demand for gold signifies a rise in its value; a rise in the value of gold can, however, only be shown by a fall in general prices.

The process which equalises the supply and demand of gold is not peculiar to itself if we substitute value for price.

Recapitulation.

The leading propositions established in this chapter are briefly these:—If the demand for gold increases without the sources of its supply becoming more productive, the increased quantity of gold required will be obtained at a greater cost, and the result must be that the value of

gold will rise. An increase in the value of gold must be shown by a fall in general prices. If, on the other hand, rich gold mines should be discovered, and the cost of obtaining gold should be lessened, the supply of gold will be increased, and its value must inevitably decline, unless circumstances should simultaneously happen which should cause various countries to require a greater amount of gold money. If such circumstances should occur, an increase in the demand for gold might be created, and the whole of the additional gold yielded might be absorbed without the value of this metal being decreased. If, on the other hand, no circumstances should occur to increase the demand for gold, the increase in the supply of gold must cause a decrease in its value. But a diminution in the value of gold, or, in other words, a rise in general prices, creates an increased employment for gold, because if the price of a commodity is increased, a greater amount of money is required to be used each time a commodity is bought and sold. In this way the supply of gold will be always equalised to the demand, because, as the value of gold becomes depreciated by an increased supply, the demand for gold will also be increased in exact proportion to the amount of this depreciation. Thus, if the value of gold is decreased one half, or, in other words, general prices are doubled, the quantity of gold money required will also be doubled. This process of equalisation is moreover assisted by the two following circumstances:

Circumstances which tend to equalise the demand to the supply of gold.

In the first place, as the value of gold diminishes, a greater quantity of it will be used for purposes of art and manufacture, and in this way a portion of the additional supply of gold may be absorbed.

In the second place, a decrease in the value of gold exerts an influence to limit the supply, because gold mining will be rendered less profitable, and therefore the least productive mines will gradually cease to be worked. It will be shown, in a future chapter, that the principles just enunciated render us much assistance in determining the effects which have been produced by the recent gold discoveries in Australia and California.

We have, in this chapter, explained the manner in which the demand for gold is equalised to its supply in the case of the countries which produce it; but other countries,

such as our own, yield no gold; it is obtained entirely as an imported commodity. It will be therefore necessary to call to our aid the principles of international trade, in order to explain how the quantity of gold is regulated which a country like England annually retains for the purposes of coinage. The subject of international trade will therefore be considered in the next chapter.

CHAPTER VII.

FOREIGN COMMERCE OR INTERNATIONAL TRADE.

Advantages of international trade.

THE advantages which a country derives from foreign commerce must be patent to the most casual observer. By foreign commerce a country obtains various commodities which she cannot produce herself; her people do not perhaps possess the requisite skill, or her climate and other circumstances of her physical condition are unsuited to the growth and manufacture of the products in question. Foreign commerce therefore extends the range of man's enjoyments; he is not confined to the products of his own soil, but commodities are brought from every region of the world to minister to his wants. Foreign commerce however confers another advantage which is equally important; a single example will show how greatly foreign trade stimulates the production of wealth by increasing the efficiency of labour and capital.

The mutual advantage gained by France selling wheat to England for hardware.

If the economic condition of two countries is considered it will at once be perceived that there is the greatest possible variation in the relative advantages which they respectively possess for the production of various commodities. For instance, the mixture of coal and iron-stone, in alternate seams, gives England a striking advantage in the manufacture of hardware. On the other hand, a country like France has peculiar facilities for the growth of wheat; her land is fertile, and her labour is cheap. It may therefore be assumed than in England iron is comparatively less costly to produce than wheat, and that in France the production of wheat is comparatively less costly than that of iron. In order to explain the advantage, which each of these derives from trading with the other, let it be sup-

posed that in France the production of a ton of pig iron requires as much labour and capital as the production of twenty sacks of wheat; but that in England the same quantity of iron requires as much labour and capital as would produce ten sacks of wheat; then iron, estimated in wheat, is twice as valuable in France as in England. England therefore might say to France—It will be greatly to our mutual advantage if you will let me supply you with iron, and receive from you wheat in exchange for it. For suppose you give me fifteen sacks of wheat for each ton of iron that I send you, then we shall each gain five sacks of wheat on every transaction; if you manufacture the ton of iron yourself, it would cost you as much as twenty sacks of wheat, whereas you only have to give me fifteen sacks. On the other hand, I should only be able to get ten sacks of wheat for a ton of iron, if I sold the iron in my own country. We therefore each of us obtain a profit upon the transaction, which is represented in value by five sacks of wheat. This is a great gain, and a great saving of wealth, for the gain is made at no one's expense.

This advantage may be gained whenever the prices of two articles bear a different proportion to each other in different countries.

In order that two countries should enjoy those striking advantages which have just been pointed out as resulting from foreign commerce, it is not necessary that of the two commodities exchanged the first should be dearer in the one country than in the other, and that the second commodity should be cheaper; all that is necessary is that in the two countries there should be a difference in the *relative* value of the commodities which are exchanged. It is very important to bear this remark in mind; its truth may be illustrated by an example. Suppose the cost price of a ton of iron produced in France is 30*l.*, and that the price of a sack of wheat is 30*s.*; a ton of iron would therefore exchange in France for twenty sacks of wheat. But, in England, a ton of iron is supposed to exchange for only ten sacks of wheat. Let it therefore be considered that a ton of iron in England is worth 10*l.*, and that a sack of wheat is worth 1*l.* Wheat and iron are therefore both cheaper in England than in France, but iron is three times as dear in France as in England, and wheat is only one and a half times as dear. There is therefore a difference in the *relative* value of wheat and iron in the two countries,

and hence a foreign trade in these two commodities can be carried on with great advantage to the two countries concerned. For if England gives France a ton of iron in exchange for fifteen sacks of wheat, each country will upon the transaction obtain a profit which in value is to be estimated at five sacks of wheat. But all the gain which arises from this exchange would be at once lost if there were no difference in the relative value of wheat and iron in the two countries, for if wheat as well as iron were three times as dear in France as in England, it would be impossible for England or France to realise any profit by exchanging iron for wheat; the transaction would involve heavy loss to each party, because there would be no profit to counterbalance the expense involved in exporting the commodities from one country to the other.

Cost of carriage.

In explaining the profit realised by two countries from foreign commerce, we omitted to mention the cost of carrying these commodities from one country to the other. This cost of carriage has, of course, to be deducted when estimating the aggregate gain resulting from foreign trade. This item must not only be considered, but it will be also necessary to point out the causes which fix the exact proportion of the whole cost of carriage which is borne by each of the two countries. It will, however, much simplify our investigations if for the present the consideration of the cost of carriage is omitted. In order still more to simplify the subject, it may, in the first instance, be assumed that England's foreign commerce is restricted to one country, and that her exports to this country, and her imports from it, are confined to two commodities. Reverting to our former example, let it be supposed that England's foreign commerce consists entirely in sending iron to France, and receiving wheat in exchange for it. As yet it has only been proved that England and France would both realise considerable profit if there was a difference in the relative value of wheat and iron in the two countries. It has been shown above, that upon every ton of iron exported, England and France might both obtain a profit equal in value to five sacks of wheat, if a ton of iron were worth twenty sacks of wheat in France and ten sacks in England: this particular profit would manifestly be realised if fifteen sacks of wheat were given for one ton of iron.

If commerce be supposed restricted to two articles

what would be the terms of exchange?

But the question now arises, Is it necessary that these, and no others, should be the terms of the bargain? Why should not twelve sacks of wheat instead of fifteen sacks be given for each ton of iron? The trade would still be highly remunerative to each country, although the profit resulting from the transaction would now be unequally instead of equally distributed, for France would obtain a profit represented by eight sacks of wheat upon each ton of iron exported from England, whereas the profit realised by England upon the same transaction would be no more than two sacks of wheat. The terms of such a bargain are certainly not regulated by blind chance; the buyer and seller in the transactions of international trade are shrewd merchants, whose business it is to buy as cheaply as they can and to sell as dearly. We will at once proceed to explain the principles which regulate all the bargains of international trade.

The process by which the equalisation of supply and demand is effected in this case, is similar to that which takes place in home trade.

If England could receive fifteen sacks of wheat for every ton of iron she exported to France, the quantity of iron which she would be willing to export upon these terms might be greatly in excess of the quantity of iron which France requires. If this be so, then the supply of iron to France would manifestly be in excess of the demand; it will therefore be necessary to consider how the supply may be equalised to the demand. In making this investigation it will be shown that the process by which this equalisation is effected exactly resembles that process of equalisation which takes place in the case of commodities which are bought and sold in the country where they are produced.

When the supply of any commodity is in excess of the demand, the commodity must be cheapened in order to equalise the supply to the demand; by cheapening the commodity its supply will be diminished, and the demand for it will be increased. England, therefore, will be compelled to offer her iron to France on more favourable terms, if the quantity of iron which England exports is more than sufficient to meet the demand which France has for iron. Let it therefore be assumed that France only gives England fourteen sacks of wheat instead of fifteen for each ton of iron. This change in the terms of the bargain will manifestly exert an influence in two distinct ways towards

equalising the demand for iron in France to the supply which is imported from England.

An increased demand of one country for the produce of the other makes the terms less favourable to it;

In the first place, the profit obtained upon the transaction by the English manufacturer of iron will be diminished, and therefore he will be induced to export a less quantity of iron to France than he did when fifteen sacks of wheat were given for each ton of iron. The supply of iron to France will in this manner be decreased. The demand for iron in France will, at the same time, be increased; because if any commodity is cheaper the demand for it always becomes greater. Iron must manifestly be cheapened in France if fourteen sacks of wheat instead of fifteen are given for each ton of this metal which is imported. If, however, this alteration in the terms of the bargain is not sufficient to equalise the demand to the supply, and if the quantity of iron which England is willing to export still exceeds the quantity which France requires, the terms of the bargain must be further altered in the same direction. It may, therefore, be assumed that England will be compelled to offer France iron at the rate of thirteen instead of fourteen sacks of wheat for each ton of metal exported. Let it, therefore, be supposed that these are the terms upon which this international trade is finally adjusted; thirteen sacks of wheat being exchanged for one ton of iron. Some important propositions may be deduced from the description which has just been given of the internal mechanism which regulates the bargains of international trade.

or, the profit of each country is in an inverse ratio to its demand for the imported goods.

As an example, the reader will observe that the whole profit which accrues upon each transaction of international commerce is shared, between the two trading countries, in the inverse ratio of the demand which one country has for the commodity which it imports from the other. Thus, in the case just considered, the partition of the profit between France and England is made according to the following ratio:—England upon each ton of iron exported obtains a profit equal in value to three sacks of wheat, whereas the profit secured by France is seven sacks of wheat, or, in other words, more than twice as much as that which falls to the lot of England. But if the demand for iron in France should increase, France would obtain a smaller share of the profit, and England of course a greater share.

This proposition, after what has been stated, can scarcely need any explanation. When thirteen sacks of wheat are given for one ton of iron, there is a certain definite quantity of iron which England is willing to export upon these terms. But if this particular quantity of iron no longer satisfies the demand of France, then France, in order to induce England to send her more iron, must offer higher terms for this iron; and thus France may, in consequence of her increased demand for iron, be compelled to give fourteen sacks of wheat instead of thirteen for each ton of iron. The whole profit of the transaction will then be divided between France and England in the ratio of six to four, instead of in the ratio of seven to three.

Effects of lowering the cost of production of one of the commodities exchanged.

Let us next enquire what will be the effect upon the ratio in which the aggregate profits are divided if the production of one of the commodities interchanged is cheapened in England, but not in France. Suppose that in England some rich deposits of iron ore are discovered, or that, in the process of smelting, some improvements are introduced which France has not either the appliances or the enterprise to adopt. The cost of producing iron might in this manner be so materially diminished in England that a ton of iron will become equivalent in value to eight sacks of wheat instead of ten, while at the same time there is no diminution in the cost of producing iron in France; and therefore in that country a ton of iron, if no supplies were obtained from other countries, would be still equivalent in value to twenty sacks of wheat. The whole profit which will now result from the interchange of iron for wheat between England and France will be represented by twelve sacks of wheat, instead of by ten. The question therefore arises, Will England be able to appropriate to herself the whole of the additional profit? That she will be able to do so may at first sight seem probable, because the improvements or discoveries which have cheapened the cost of iron are due entirely to her, and have as yet exerted no effect in diminishing the cost of producing iron in France. England has previously been obtaining from France thirteen sacks of wheat for each ton of iron. If France were still to carry on the commerce upon these terms, now that a ton of iron is only worth eight sacks of wheat in England, the profit obtained by England would

It does not follow that the country in which the pro-

be increased from three sacks of wheat to five sacks of wheat; she would thus appropriate to herself the whole advantage arising from the diminished cost of iron; France still having to give for iron exactly what she did before. But the competition of the English iron masters will inevitably prevent this taking place: directly they find that the profits obtained upon the export of iron to France are so greatly increased, they will be anxious to send a much larger quantity of iron to France; iron will, in fact, be forced upon the French markets, greatly in excess of the quantity required. This is sure to be the case, since before increased exports of iron were encouraged by high profits, the demand for iron in France was exactly equalised to its supply. The terms upon which the trade between France and England is conducted must become less favourable to the latter country, in order to induce England to export less iron, and also to induce France to purchase a greater quantity of the iron imported from England. In this manner England may be compelled to exchange only eleven, or even ten sacks of wheat, for each ton of iron. We have here simply to repeat, what was stated in the case above analysed, that the terms upon which the bargain is finally adjusted depend entirely upon the equalisation of the demand to the supply. If, when a ton of iron is exchanged for eleven sacks of wheat, the quantity of iron sent to France is in excess of that which she requires, the terms of the exchange must be again adjusted; it may for instance happen that when only ten sacks of wheat are given for one ton of iron, the demand for iron in France will be exactly equal to the supply: if this be so, then ten sacks of wheat for one ton of iron will be the terms upon which the exchange is finally adjusted. But if these were the terms upon which the bargain were ultimately arranged, it is manifest that France must obtain the greater portion of the profit which arises from the diminished cost of producing iron, even although this diminution in the cost of producing iron has been confined entirely to England. If ten sacks of wheat are given for a ton of iron, the profit secured by France upon each ton of iron she imports will be an equivalent in value to ten sacks of wheat, whereas the profit secured by England will be only two sacks of wheat. This is a smaller profit than she obtained before

duction is cheapened will gain all the advantage.

the cost of producing the iron she exports was reduced. France, therefore, has been able to appropriate the whole of the additional profit. This may appear a paradoxical result, but it is one which very possibly may really occur.

The profit arising from international trade is distributed amongst the whole people.

Allusion has so frequently been made in this chapter to the profit arising from international trade that the question will be naturally asked—Into whose possession does this profit ultimately fall? When England obtains a profit of five sacks of wheat upon each ton of iron she exports, is this profit solely enjoyed by the English merchant, and the English iron master, or is it distributed amongst the whole nation? In answering this question it must be borne in mind that the profit arising from international trade is due to a saving of labour and capital; this profit cannot be permanently retained by the merchants, or by those who produce the commodity exported; because, as has been so frequently remarked, the competition of capital prevents exceptionally high profits being permanently secured in any branch of industry. It would therefore appear that the profit which a country derives from foreign commerce will be distributed amongst the consumers of the imported commodity. It therefore becomes necessary to consider how this distribution of profit amongst the consumers of imported commodities is effected.

Process by which this is effected.

It has been supposed that in France a ton of iron costs as much to produce as twenty sacks of wheat, whereas in England the production of a ton of iron only costs as much as ten sacks of wheat. It is therefore evident, supposing there were no foreign commerce between the two countries, that the price of iron would be 20*l.* a ton in France, when the price of wheat there was 1*l.* per sack, and that in England the price of a ton of iron would be 15*l.*, when the price of wheat in England was 30*s.* a sack. What effect would be produced upon the price of these commodities by a commerce between the two countries? In order to investigate the question which has just been put, let it be supposed that France gives England fifteen sacks of wheat for each ton of iron; a ton of iron must now, therefore, in each country, be worth as much as fifteen sacks of wheat. In France a ton of iron cannot any longer be worth more than fifteen sacks of wheat, because in exchange for this quantity of wheat England is willing to

give a ton of iron. Again, ten sacks of wheat will no longer be worth as much as one ton of iron in England, because, by sending iron to France, one ton of iron will procure fifteen sacks of wheat. The value of iron therefore, if estimated in wheat, has risen in England, and declined in France; or, considering the question from a different point of view, it may be said that the value of wheat, estimated in iron, has fallen in England; whereas, on the other hand, it has risen in France. Foreign commerce has therefore, in each country, produced a change in the relative value of these two commodities. The price of a ton of iron will now, in France, be no longer equivalent in price to twenty sacks of wheat. In the same way the price of a ton of iron will, in England, be no longer equivalent to the price of ten sacks of wheat, for since in each country a ton of iron now exchanges for fifteen sacks of wheat, the price of a ton of iron must in each country be equivalent in price to fifteen sacks of wheat. If, therefore, in England, a ton of iron still continues to sell for 10*l.*, fifteen sacks of wheat will only sell for 10*l.*; or, in other words, wheat will be 13*s.* 4*d.* a sack. If, in the same manner, wheat continues to be 1*l.* per sack in France, a ton of iron will there sell for 15*l.*; there will therefore have been a reduction of twenty-five per cent. in its price, for before, a ton of iron sold for 20*l.* Hence it appears that the effect of foreign commerce between two countries is to reduce the price, in each country, of the commodity which is imported; wheat will be reduced in price in England, and iron will be reduced in price in France, and the persons who consume wheat in England, and those who use iron in France, will consequently have distributed amongst them the gain which results from international trade. In fact, the main effect of foreign commerce is to increase the efficiency of labour and capital; foreign commerce causes labour and capital to be applied in such a manner as will make them most productive of wealth. According to our assumption, England possesses peculiar advantages for the manufacture of iron, whereas France is much better adapted to grow wheat than to produce iron. Each country must therefore be mutually benefited, if England produces iron for France, and France grows wheat for England.

The price of the imported commodity is lowered in the importing country.

The price of the exported commodity is generally affected in the country exporting it.

We do not pretend to say that the figures above given represent with numerical exactness the reduction in the price of iron and wheat which would actually occur. According to the hypothesis just made, wheat will in England be reduced in price to 13*s.* 4*d.* a sack, and iron will in France be reduced to 15*l.* a ton, if it is supposed that the price of iron in England, and the price of wheat in France, are unaffected by the international trade between these two countries. But it will be shown that this cannot, as a general rule, be the case. Let it, for instance, be assumed that 500,000 tons of iron is the quantity which England each year requires for her own use, and that she annually exports to France 100,000 tons; the question will then be suggested, Will the price of iron be raised in consequence of the additional 100,000 tons of iron which have annually to be produced for export to France? If no rise of price results, the price of iron will be unaffected by foreign trade. But it was shown, in Chapter III. Book III., that the price of minerals is regulated by laws analogous to those which control the price of agricultural produce. Consequently, in the absence of any counteracting circumstances, the price of iron must rise if its supply has to be increased, because less productive veins of iron-stone will have to be worked in order to obtain the additional 100,000 tons of iron annually exported to France. These considerations show that the price of iron may very possibly in England be advanced from 10*l.* to 12*l.* a ton. If this be so, the importation of wheat from France will not cause so great a reduction in its price as that above supposed, for although England may still obtain fifteen sacks of wheat for one ton of iron, yet this ton of iron is now worth 12*l.*; the fifteen sacks of wheat will therefore be worth 12*l.*; or, in other words, wheat will in England be 16*s.*, instead of 13*s.* 4*d.* a sack.

It may be supposed that the benefits of international trade are at the cost of one class of traders.

We trust that it has now been made evident that it is not the traders, or merchants, but the consumers of imported commodities who derive the greatest benefit from foreign commerce. A cursory view, however, of the subject may perhaps induce some to believe that the advantage resulting from foreign commerce is in a great degree counteracted by the pecuniary loss which is inflicted upon

the home producers of those foreign commodities which are reduced in price by foreign importation. For instance, with reference to the trade in wheat and iron supposed to exist between France and England, it may be said, that, though there can be no doubt as to the benefit conferred upon the English nation by a reduction in the price of wheat from 30*s.* to 16*s.* a sack, it should on the other hand not be forgotten that this reduction in price must inflict serious loss upon the English growers of wheat; consequently the community is benefited at the expense of one class of traders. This opinion, in fact, forms the ground-work upon which were based many of the fallacious arguments of the advocates of protection. We will therefore proceed to explain the manner in which the position of the home-producer of a commodity is affected when the price of the commodity is reduced by foreign importation.

Proof that this cannot be the case.

In the example above investigated, the hypothesis has been made, that 100,000 tons of iron are each year sent to France, for which England obtains in exchange 1,500,000 sacks of wheat. England, now that she imports wheat, will manifestly have to raise from her own soil a diminished quantity of wheat. Her own yield of wheat might be annually diminished by 1,500,000 sacks. The area of her soil which is devoted to the growth of wheat will therefore be lessened, and wheat will no longer be grown upon that land which is least fertile; or, in other words, the least adapted to the growth of wheat. The margin of cultivation will therefore ascend, and rents must be reduced. The farmer will thus ultimately be compensated for the reduction in the price of wheat; the landlords will suffer a loss from this diminution in the value of their land; the farmers may also be temporary losers; some farmers, for instance, may be bound by long leases, and rents may not be immediately adjusted consistently with the reduction which is supposed to have taken place in the price of wheat. The home trader therefore may no doubt temporarily suffer loss from the competition of foreign traders in the same branch of industry; but it must be remembered that everything will again be adjusted, because, as has been so frequently remarked, the competition of capital is constantly exerting a tendency to smooth down any temporary inequality in the profits of different trades. Even

if it is admitted that any particular class of traders are injured by foreign importations, the loss of profit which they thus suffer cannot justly be regarded as a confiscation of their private property, against which the government is bound to protect them. There can be no right to which a nation has a juster claim, than that every individual of the community should be freely permitted to obtain commodities where he can buy them on the cheapest terms, and to sell them where he can realise the highest price.

Effects of an international trade upon the growth of corn in countries which import it.

The trade between England and France—which, as an illustration, has already been analysed—suggests one or two other points for consideration, which must be examined in order to establish a complete theory of international trade. Summarising the hypothetical result at which we have arrived, it will be remembered that 100,000 tons of iron are exported from England, and that in exchange for this iron 1,500,000 sacks of wheat are imported into England. It has also been supposed that iron has been raised in price in England from 10*l.* to 12*l.* a ton, in consequence of this foreign demand; hence it has been also concluded, that since fifteen sacks of wheat are given in exchange for one ton of iron, fifteen sacks of wheat will be in England of the same value as one ton of iron. But if this be so, the price of wheat must manifestly be in England 16*s.* a sack, because the price of iron is considered to be 12*l.* a ton. It has been assumed that, if there were no foreign trade, the price of wheat in England would be 30*s.* a sack; let it also be supposed that the English nation annually consumes 6,000,000 sacks of wheat. Consequently English farmers can grow 6,000,000 sacks of wheat, and obtain the current rate of profit if the price of wheat is 30*s.* a sack. But if 1,500,000 sacks of wheat are imported into England from France, the quantity of wheat which will then be required to be grown in England will be 4,500,000 sacks instead of 6,000,000 sacks; those lands, therefore, will be no longer sown with wheat which are least adapted for its growth.*

The amount of wheat produced in the country will determine the price of wheat.

It has been previously proved that the price of wheat is determined by the cost of producing it on those soils which are the least fitted for its

* In order to simplify the investigation it is for the present assumed that the demand for wheat is not increased in consequence of its diminished price.

growth. The price of wheat, therefore, will manifestly decline if the quantity which is required to be grown in England is diminished twenty-five per cent.; such a decrease as this in the quantity required to be grown at home will manifestly result from the importations from France. Before these foreign importations commenced, 30*s.* a sack was a price adequate to remunerate those who grew wheat upon the least fertile soils. The question therefore arises, What will be the price which will adequately remunerate the growers of wheat, when the quantity of wheat required is diminished twenty-five per cent.?

If the price as determined previously is insufficient to cause the necessary amount to be grown,

The terms upon which the foreign commerce between England and France is supposed to be conducted imply that the price of wheat in England would be 16*s.* a sack. But now this important point has to be considered, Will the quantity of wheat which is required by England (namely 4,500,000 sacks) be grown if the English farmer can only obtain 16*s.* a sack for wheat? It is manifest that the quantity of wheat required will not be produced if 16*s.* a sack is not a remunerative price, for English farmers grow wheat for profit, and not for philanthropy. The people, however, must be supplied with wheat; if therefore 16*s.* a sack is not a sufficient price to induce the English farmers to grow the quantity of wheat required, a higher price will be willingly offered, rather than that there should be any deficiency in the supply. Let it therefore be supposed that wheat advances to 20*s.* a sack, and that at this price the supply is sufficient to meet the demand. But let us now consider in what manner the commerce between England and France will be affected by this advance in the price of wheat. At first sight it may appear that the profits of those who export iron would be enormously increased by this advance in the price of wheat; an iron-master, for instance, if he sells a ton of iron in England, only obtains 12*l.* for it, whereas by sending it to France he can exchange it for fifteen sacks of wheat, which are in England worth 15*l.*; therefore his profits appear to be increased by 3*l.* upon each ton of iron exported. But the competition of capital will, in this as in every other case, render it impossible for the iron-master to continue appropriating to himself these exceptionally high profits; each iron-master would eagerly

the price must rise.

The profits of producers will not be affected,

strive to send as much iron as possible to France if the price obtained for a ton of iron exported to France exceeded by 3*l.* the price realised for the iron when sold in England. This anxiety to export iron would soon cause the French market to be over supplied; iron would therefore fall in price in France, or, in other words, iron would exchange for a less quantity of wheat. In this way the quantity of wheat given for a ton of iron might be reduced from fifteen to twelve sacks of wheat. This fall in the price of iron in France will increase the demand for iron in that country, and it may be supposed that 120,000 tons of iron are exported to France, whereas the annual export of iron had before only amounted to 100,000 tons. This increased demand in France for English iron will affect its price in the latter country, and the price may consequently advance in England from 12*l.* to 13*l.* a ton. Such are the terms upon which it may be supposed that the exchange between the two countries is ultimately conducted. A ton of iron will therefore now be equivalent in value to twelve sacks of wheat; but a ton of iron is in England worth 13*l.*, therefore the price of wheat in England will be 21*s.* 8*d.* a sack. When wheat is at this price a much greater quantity can be grown in England at a remunerative profit than when a sack of wheat sold for 16*s.*; it may therefore be assumed that the wheat now grown in England, together with the wheat imported from France, is sufficient to supply the English market. From what has been just stated it will be perceived that it is necessary, in order to adjust the equation of international trade, that the demand and the supply should be equalised in both the countries.

but the terms of international trade will be differently adjusted.

It will be remarked, that the price both of the imported and the exported commodity is affected by foreign commerce. It has for instance been supposed, if England had no foreign commerce, that the price of wheat would be 30*s.* a sack, and that the price of a ton of iron would be 10*l.* It has been shown that, by foreign commerce, the price of a sack of wheat may be reduced from 30*s.* to 21*s.* 8*d.*, and the price of a ton of iron raised from 10*l.* to 13*l.* It may therefore be naturally asked, Is it certain that the consumer of commodities is benefited by foreign commerce? May not the advantage arising from the

Is the consumer of commodities invariably benefited by international trade?

reduction in the price of the imported commodity be entirely nullified by a rise in the price of the exported commodity? It can be proved, without entering into details, that the wealth of a nation must be increased by foreign commerce. Foreign commerce increases the productive powers of labour and capital by causing labour and capital in each country to be applied to those particular branches of industry for which the country has the greatest natural advantages. Thus the wheat imported into England would cost very much more, if grown in England, than the iron costs with which this wheat is purchased from France. Consequently foreign commerce increases the productive powers of labour and capital, and therefore must augment each nation's wealth.

It is possible that a particular class may be injured.

It is however no doubt true, that a particular class of consumers may not be benefited, but, on the other hand, may be injured by foreign commerce. If, for instance, wheat is imported from France to England, in exchange for iron, an increased quantity of wheat must be grown in France, and therefore the price of wheat will rise in France; the iron which France imports from England will of course be reduced in price. But to the great body of the people, and certainly to the labouring classes, cheap iron will afford no compensation whatever for even a slight rise in the price of bread, and thus the labouring classes in a country may be injured by foreign commerce, although it augments the wealth of a nation. It is quite possible that the labouring classes of a particular country may suffer very seriously from foreign commerce, if the exports consist of commodities which are more generally consumed than those which are imported. If France exported wheat, wine, and live stock, and imported woollen clothes and iron, it is very probable that cheaper iron and clothes would not adequately compensate the labouring classes in France for an advance in the price of meat, bread, and wine. The injury which, in this manner, may be inflicted upon the labouring classes by foreign commerce, will generally in some degree be counteracted by advantages which are not connected with the change in the price of commodities.

Foreign commerce must tend to raise wages.

Foreign commerce economises labour and capital, and therefore must exert some tendency towards increasing the nominal wages of the labourer; when labour and capital

are economised, an equal amount of material wealth can be produced by the application of a diminished quantity of labour and capital. But if this be so, the labourer's wages will be increased without encroaching upon his employer's profits; in fact, since more wealth is produced, there will be a larger aggregate amount to be divided between the employer and the employed, and consequently profits, as well as wages, may be augmented.

Although this loss to the consumer may take place,

We have been the more anxious to point out the loss which foreign commerce may inflict upon those who consume the exported commodity, although the loss is one which is doubtless generally more than made up for in practice by counterbalancing advantages, because it is too much the custom to think only of the interest of the trader or merchant, and entirely to forget the consumer. Many of our statesmen consider that the nation must be advancing in prosperity and happiness if the Board of Trade Returns exhibit an augmentation in the exports and imports. But on behalf of the consumer it should be borne in mind, that a rise in the price of the commodities exported is not unfrequently a prominent feature of an expanding foreign trade. Although this, as a possible result of foreign trade, is one which ought not to be lost sight of, yet we should be the last to advocate that commercial intercourse between countries should be impeded, because commodities may rise in price in the country from which they are exported. A policy which should attempt such restrictions would not only be unwise, but ought almost to be stigmatised as wicked. Man, we conceive, has an indefeasible right that the wealth which ministers to his wants, and provides his enjoyments, should be produced with as little labour as possible. This can only be secured by perfectly free commercial intercourse between all nations. The benefits conferred by foreign commerce are truly cosmopolitan; it brings men of every nation in contact, and thus becomes the most powerful agent of civilisation. Foreign commerce removes the barriers between nations, and makes them one, as far as their industrial economy is concerned. A rancorous enmity, combined with an ignorance of the true principles of trade, has for centuries raised every possible obstacle to a trade between France and England. Many of our manufactured

restrictions on trade are impolitic and unjust.

commodities are far superior to those possessed by the French; they, on the other hand, had products which could not be grown on our soil, and under our climate. If the Straits of Dover were bridged over by a narrow strip of land, and the two countries formed one nation, it would seem inexpressibly absurd that those who lived in the north of the country should scarcely be permitted to taste the products which are grown in the south; it would seem equally absurd, that people in one part of the country should be compelled to manufacture certain commodities, under the most unfavourable conditions, because they were not permitted to purchase these commodities in another part of the country, although there the quality would be better, and the price cheaper. A restrictive policy which seems so unreasonable if two nations become one, is not more defensible when the two nations are separated by a boundary which is often merely artificial.

It has been thought desirable to point out the injury which in certain cases may be inflicted on particular classes by foreign commerce, in order more completely to understand the causes which make so many countries still favour a policy of protection. The advantages which England has derived from free trade are so striking and so apparent that our countrymen are perhaps too prone to treat those who support protection with contempt and ridicule. It should, however, be remembered that in almost every country except our own the protectionist party is numerous and powerful. Free trade has never been popular either in France, the United States, or in our colonies. It has moreover been repeatedly shown that in America and Australia the great body of the working men are ardent protectionists. The reason of this is probably due to the fact that they observe the loss which may be inflicted upon particular classes of the community by unrestricted foreign commerce, whilst they fail to understand the compensating advantages which will more than compensate this loss. American workmen, for instance, argue that their exports consist chiefly of the necessaries of life, and that the imports they obtain from Europe are mainly composed of commodities which are consumed by the wealthier classes. They therefore conceive that the cheapening of these articles would not compensate them for an increase in the

price of any of the necessaries of life. Again it is supposed that labourers have a particular interest in protecting the trade to which they are accustomed against foreign competition. Thus a cotton operative in America might be ready to admit that the aggregate production of wealth in his country would be increased if all cotton goods were imported from Lancashire. But he would argue that if the cotton manufacture should cease in America he would lose the advantage of his acquired skill; he would be compelled to resort to some employment to which he was not accustomed, and in which he would consequently obtain lower wages. It is only fair to acknowledge that these allegations may be true. The only way in which they can be met is to assert the principle that mankind in general is interested in having no unnecessary obstacles interposed to the production of wealth. A government cannot be pursuing a just or wise policy if it causes the labour and capital of a community to work with diminished efficiency. The abolition of all protective duties in America might temporarily cause some loss to particular classes. The introduction of the greatest industrial improvements have always caused some suffering to individuals. Not a few coach proprietors and road-side innkeepers were ruined by railways. Every new machine that is invented dispenses with the necessity of employing some kind of manual skill which was previously a valuable possession to those who applied it. A government would not for these reasons impede the construction of railways or the introduction of machinery. It would be felt that the temporary interests of the few must not stand in the way of the permanent welfare of the many. Similar considerations resting on a wider basis suggest the arguments to be urged against protection. Free trade enables the labour and capital of each country to work with maximum efficiency. The additional wealth which is consequently produced when commerce is unrestricted far more than compensates a nation for the temporary loss inflicted on individuals by the abolition of protective duties.

Although, as previously remarked, few can now be found in England who would favour the re-imposition of protective duties, yet there has lately arisen a new and somewhat curious objection to free trade. England, it is argued,

is suffering because with regard to the abolition of protective duties there has not been sufficient reciprocity between her and other countries. It is in fact argued that free trade is excellent when all countries adopt it, but that a country pursues a too generous course, and one involving too much self-sacrifice, if she abolishes protective duties whilst her neighbours retain them. It is no doubt perfectly true that England would be benefited if other countries adopted free trade. We therefore have every inducement to do all in our power to make them take such a course. It is also equally true that other countries have shared the advantages which England has derived from free trade; but if we re-imposed protective duties because other countries are sufficiently unwise to retain them, the only result would be that we should inflict an injury upon ourselves in order to avenge the unwise financial policy pursued by other countries. England would be largely benefited by the active stimulus which would be given to her iron trade if America would remove protective duties upon manufactured iron. But we should be acting with ignorant perversity if we refused to buy the wheat from America which we so urgently require because America refuses to purchase as much English iron as we are willing to sell her. It is therefore evident that with regard to free trade there is reciprocity, but in a sense directly opposed to those who desire that protective duties should be re-imposed because other countries will not abolish them. The advantages associated with free trade are reciprocal, because even if only one country adopts such a policy, the benefits resulting are diffused over every country with whom commerce is carried on.

The cost of carriage must be taken into account.

It now becomes necessary, in order to complete the theory of international trade, no longer to omit the consideration of the cost of carrying from one country to another the commodities which are interchanged. The subject will be best explained by the former example. Let it be assumed that the cost of exporting iron from the English to the French markets is 1*l.* per ton, and that the cost of exporting wheat from the French to the English market is 2*s.* a sack; the question therefore at once suggests itself, What share of this cost of carriage is borne by each country respectively? Let the terms of exchange be

one ton of iron for twelve sacks of wheat; the iron in England being raised in price from 10*l.* to 13*l.* a ton, in consequence of the foreign demand. We will first examine what will take place if the cost of carriage were borne entirely by the exporter; the English merchants paying the whole expenses of sending the iron to France, and the French merchants paying the whole expense of sending wheat to England. Upon this hypothesis, although England would nominally sell her iron to France at 13*l.* a ton, yet the real price would be only 12*l.*, because 1*l.* per ton has to be deducted for cost of carriage; similarly 2*s.* a sack would have to be deducted from the nominal price which the French obtain for the wheat sent to England. If, therefore, France gave England 13*l.* a ton for iron, iron must be selling in the English market for 12*l.* a ton: if it sold for more, it would be manifestly to the advantage of the English merchant to dispose of his iron at home, instead of exporting it to France; for the same reason wheat must be selling in the French market at 2*s.* a sack less than the price at which England purchases it from France, in order to compensate the French exporter of wheat for the cost of carriage. Each country will therefore have to pay a higher price for the commodities they import, in consequence of the cost of carriage; therefore the demand for the imported commodity will not be so great as it would be if no expense were involved in carrying goods from one country to another. There will therefore be a diminution in the French demand for English iron, and in the English demand for French wheat. But the falling off in the demand may vary in different ratios in the two countries. Thus a rise of 2*s.* in the price of French wheat may diminish the demand for French wheat in England by one-fifth, whereas a rise of 1*l.* a ton in the price of iron may cause only a decrease of one-tenth in the quantity of iron purchased by France from England. Our previous analysis has shown that the terms upon which commodities are exchanged, in international trade, are entirely regulated by the demand. Each country purchases the imported commodities by those which are exported, and the amount of the demand which a country has for any commodity depends upon its price; if, therefore, a country wishes another to purchase a greater quantity of

The demand in each country will be checked, but in different ratios.

her exports, the price of these exports must be reduced; consequently, when the bargain of international trade is finally settled, the price of imported and exported commodities must be such that each country is enabled, by means of her exports, to pay for all the commodities which are imported.

The share of cost of carriage borne by each depends upon this ratio.

If the cost of carriage should raise the price of the commodities interchanged in foreign commerce, the amount of this increased cost, which is borne by each of the countries respectively between whom the trade is carried on, depends upon the relative degree in which the demand for imported commodities is affected. Thus it was above supposed that the cost of carriage diminishes the demand for French wheat in England by one-fifth; whereas the same cause only diminishes the demand for English iron in France by one-tenth. We will illustrate this by a numerical example.

Analysis of the effect produced in a particular case.

Suppose that 100,000 tons of iron would be each year exported from England to France, if commodities could be sent from one country to another without any cost of carriage; and that, under the same supposition, France would export to England 1,500,000 sacks of wheat in exchange for the iron. Let it also be assumed that English iron would sell for 15*l.* a ton in France if there were no cost of carriage; the cost of carriage, being 1*l.* a ton, will raise the price of English iron in the French market to 16*l.* a ton. Similarly, it may be assumed that cost of carriage raises the price of French wheat in the English market from 20*s.* to 22*s.* a sack. If English iron were sold to France at 15*l.* a ton, and if French wheat were sold to England at 20*s.* a sack, France would import 100,000 tons of iron, and England would import 1,500,000 sacks of wheat; the equation of international trade would consequently be satisfied, because the exports from each country would be exactly equivalent in value to the imports. But the rise in the price of English iron to 16*l.* a ton diminishes the demand of France by one-tenth, and the demand of England for French wheat is diminished by one-fifth, if its price rises to 22*s.* a sack. Although, therefore, the French will only purchase 90,000 tons of iron at 16*l.* a ton, yet they may be willing to increase their purchases by 5,000 tons, if iron is reduced in price 5*s.* a ton.

The English iron-masters must submit to this reduction in price, because the demand for iron in France has been diminished by the cost of carriage, and the supply will consequently exceed the demand if the price of iron remains at 16*l.* a ton. The French exporters of wheat must submit to a still greater reduction in price, in order to equalise the demand to the supply, because the demand of England for French wheat, when its price is raised, is more affected than is the case with the demand of France for English iron, when its price is raised. French wheat, therefore, may sell in England for 21*s.* instead of 22*s.* a sack; if this be so, the French growers of wheat will only obtain 19*s.* a sack for the wheat which they export to England, because there must be sufficient difference between the price of wheat in France and England to cover the cost of carriage, which is 2*s.* a sack. In a similar way the English iron-masters will only obtain 14*l.* 15*s.* a ton for the iron which they export to France, if iron is sold in the French market at 15*l.* 15*s.* a ton; because there must be such a difference between the price of iron in the French and English markets to cover the cost of carriage, which has been assumed to be 1*l.* a ton. The hypothesis which has been made consequently leads to the following results.

Results arrived at from this analysis.

If there were no cost of carriage, iron would be selling in the English and French markets at 15*l.* a ton. The cost of carriage, which is supposed to be 1*l.* a ton, raises the price of iron in France to 15*l.* 15*s.* a ton, or, in other words, increases the price of iron by 15*s.* a ton. It would therefore appear, that France pays seventy-five per cent. of the cost which is involved in sending iron from England to France.

Again, if there were no cost of carriage, French wheat would be selling in England and France at 20*s.* a sack; the cost of carriage, which is supposed to be 2*s.* a sack, raises the price of French wheat in England to 21*s.* a sack; the cost of carriage, therefore, although amounting to 2*s.* a sack, only raises the price of wheat 1*s.* a sack in England. It would therefore appear that England only pays fifty per cent. of the cost which is involved in sending wheat from France to England.

General principles

These results consequently lead to the conclusion that

France contributes more to the cost of carriage than England, or, in other words, that as far as international trade is concerned, the latter country is placed in a better position, as regards the cost of carriage, than the former country. This conclusion still further corroborates the following principle—If any new element, such as cost of carriage, affects the terms upon which the trade between the two countries is conducted, the re-adjustment of the bargain will most turn to the advantage of that country whose demand for the imported commodities is either most diminished or least increased by the new conditions of which account has to be taken.

as to the effect produced by any new element such as cost of carriage.

It has been assumed, in the remarks which have just been made, that the difference in the price of any commodity, in two countries between which there is free commercial intercourse, cannot exceed the cost of sending a commodity from one country to the other. Although this proposition appears to be a self-evident truth, yet it may be perhaps advisable to say a few words upon it. Let us take, as an example, the case above analysed. It has been there assumed that the cost of sending iron to France is 1*l.* a ton, and the cost of sending wheat from France to England is 2*s.* a sack. If there were no cost of carriage, the price of iron and wheat must be the same in England as in France; because if iron would realise even as little as 2*s.* 6*d.* a ton more in France than in England, the English iron-masters would vie with each other to sell as much of their iron as possible in France, in order to secure the extra 2*s.* 6*d.* a ton. This eager competition would rapidly reduce the price of iron in the two countries to an equality. It will be remembered that it has been also assumed that if there were no cost of carriage English iron would sell in each country for 15*l.* a ton, and that French wheat would sell in each country for 20*s.* a sack. These prices would adjust the equation of international trade, enabling the exports of each country exactly to pay for the imports. Again, it has been assumed that, when the cost of carriage is taken into consideration, English iron must sell for 15*l.* 15*s.* a ton in France, and French wheat must sell in England for 21*s.* a sack, in order that the equation of international trade may be satisfied. The question now suggests itself,

The assumption made above, that the difference of price of any commodity in two countries cannot exceed the cost of carriage, shown to be true.

What, under these circumstances, will be the price of English iron in England, and what will be the price of French wheat in France? The answer may, at once, be given that the price of iron in England will be 14*l.* 15*s.* a ton, and that the price of wheat in France would be 19*s.* a sack. This must be the case, for since the cost of sending iron from England to France is supposed to be 1*l.* a ton, the difference in the price of iron in the two countries must be 1*l.* a ton. If the difference were less than this, and the price of iron were 15*l.* a ton in England, no iron-masters would send any iron to France, as it would be so much more remunerative to sell it in England.

The difference of price must exactly equal the cost of carriage.

Again, there cannot be a greater difference in the price of iron in the two countries than 1*l.* a ton, for if iron were 16*l.* 10*s.* a ton in France, and 15*l.* in England, the English iron-masters would vie with each other to sell all their iron in France, since their iron, after paying the cost of carriage, would realise 10*s.* a ton more in France than in England. These considerations establish the proposition that the difference in the price of any commodity, in two countries, is exactly equivalent to the cost of sending this commodity from the one country to the other.

These results are not affected by the difference of currency in two countries.

It may be objected that prices in different countries cannot be compared, because countries have seldom the same currency. Without anticipating the remarks which will be made in a future chapter, on currency, it will be sufficient to state that the price of a commodity in different countries can always be compared by considering how much gold it will exchange for. The distinctive characteristic of a substance like gold is, that it is a universal medium of exchange; people in France are as ready to sell their commodities for gold as we are in England. The cost of sending an ounce of gold to France is most trifling, and therefore, if an ounce of gold would purchase a greater quantity of wheat in France, including the cost of sending the wheat from France to England, than could be purchased by the same quantity of gold in England, gold will be exported to France for the purpose of purchasing wheat. The demand for wheat would therefore rise in France, and its price would increase. Similarly, if the English consumers of wheat purchased wheat from the French instead of the English growers, the demand for wheat in England

would decline; this rise in the price of French wheat, and this fall in the price of English wheat, would continue until at length there ceased to be any profit in sending gold from England to purchase wheat in France. Such a profit would manifestly cease to exist if there were no greater difference in the value of wheat in the two countries, estimated in gold, than would be equivalent to the cost of carriage. But the price of a commodity has been defined to be its value estimated in gold. It may be therefore said that, if the trade between two countries is perfectly free, there cannot permanently be any greater difference in the price of any commodity in the two countries than would be equivalent to the cost of carrying the commodity from the one country to the other.

These truths may be extended to trade between any number of countries in any number of articles.

Throughout this chapter, the assumption has been made that foreign commerce has been restricted to two countries, and to two commodities. The principles which have been deduced from this assumption enable us to establish a complete theory of international trade. Let us consider how the bargains of foreign commerce are adjusted in such a country as England, which exports the most varied commodities to every country in the world, and imports in exchange every product which can either gratify the desires, or minister to the wants of the people. In this case it is equally true that there is an equation of international trade which must be satisfied; it is easy to show, by a method of investigation similar to that pursued when corn was supposed to be exchanged for iron, that the aggregate exports must ultimately pay for the aggregate imports. The terms upon which this exchange is conducted are regulated entirely by the relative amount of the demand which exists in two trading countries for the various commodities which each country respectively imports. It has already been shown that England must give France a greater quantity of iron for the same amount of wheat, or, in other words, the terms of the exchange will turn to the advantage of France, and to the disadvantage of England, if England's demand for French wheat increases in a greater ratio than the demand of France for English iron. In a similar way the bargain of foreign trade will become less favourable to England, or, in other words, England will be compelled to receive less for her

exports, and to give more for her imports, if her demand for the various commodities which she imports increases in a greater ratio than the demand which other countries may have for the various commodities which compose her aggregate exports.

The principles of international trade have now been examined in sufficient detail. In the next chapter these principles will be applied to a very important case. The laws will be investigated which determine the value of money, when the precious metals of which money is composed are considered as commodities exported and imported as ordinary articles of commerce.

CHAPTER VIII.

ON THE TRANSMISSION OF THE PRECIOUS METALS FROM ONE COUNTRY TO ANOTHER.

Gold may be transmitted either as an article of commerce or as money.

EACH country obtains its supply of the precious metals in two distinct ways. In the first place, gold and silver are imported from the mining countries as ordinary commodities of commerce, and secondly, the precious metals, in the form of money*, are sent from one country to another for various purposes. For instance, loans are raised in England for India, and these loans are in a great part transmitted to that country either in bullion or in specie. England annually purchases from China an

* In this chapter the value of the precious metals when in bullion, is supposed to be the same as when coined into money. It has already been stated that a certain weight of gold must have the same value whether in bullion or in specie, if no charge is made for the expense of coining this gold. In England and in several other countries coinage is performed gratuitously. If therefore an ounce of gold is taken to the English mint, its value must be exactly represented by the amount of money into which it can be coined. If gold in bullion were in the slightest degree more valuable than when in coin, it would at once become profitable to melt money and thus convert it into bullion. If on the other hand bullion were less valuable than coin, bullion would be immediately taken to the mint to be converted into money. It is therefore evident when no charge is made for coining, that the value of bullion and specie must be exactly equivalent. It may however be thought expedient that the government should not bear the cost of coining. A certain sum might be charged, termed a seignorage when bullion is converted into money. If it be assumed that this seignorage is one per cent. upon the amount coined, the value of a certain quantity of the precious metals when in the form of money would exceed by one per cent. the value of the same weight of bullion. The question whether or not it would be desirable to impose a seignorage at the English mint must be mainly determined by considering whether the inconvenience arising from even slightly altering a recognized standard of value would be compensated by removing the expense now imposed upon the nation at large by our present system of gratuitous coining?

enormous amount of tea and silk, and China prefers to be paid for this tea and silk by the precious metals rather than by our manufactured goods. A great portion of the rent of the land in Ireland is paid in money to absentee landlords. Capital may be invested in our funds and railways by foreigners, whose dividends will be annually paid to them in money. Again, with regard to international trade, it must be remembered that commodities are not always exchanged by barter, but are almost always bought and sold for money. English merchants who purchase wheat from France pay for it in money, instead of offering other commodities, such as iron and coal, in exchange for this wheat. These, and many other circumstances which might be enumerated, cause a considerable amount of the precious metals to be constantly passing, either in the form of money or bullion, from one country to another. It will be convenient, in the first place, to consider the precious metals as exports from the countries whence they are obtained.

Gold forms part of the ordinary exports of some countries, and its value is determined on the same principles as that of other commodities.

A considerable portion of the industry of Australia and California is devoted to gold digging; gold is, to these countries, as truly a staple article of export as hardware or cotton cloth are in England. The precious metals may therefore be regarded as an ordinary article of export or import; the value of these metals is consequently regulated by the same laws as those which determine the value of any other commodity which is bought and sold in the transactions of foreign trade. For instance, Australia, like any other country, must pay for the commodities she imports by those which she exports. It makes no difference whatever that a principal part of Australia's exports happens to be gold. It may in fact be shown, that the discovery of rich gold mines in Australia exerts on the industry of that country an influence similar to that which would be produced by the discovery of rich deposits of some material which England exports; such, for instance, as iron. If the discovery of very rich deposits of iron-stone caused a great increase in the quantity of iron annually produced in England, iron would inevitably decline in price. This decline in price would increase the home demand for iron, and the foreign demand would also be increased, because iron would be offered to foreign countries at lower rates. An

equality between the demand and the supply would in this manner again be restored, and the whole of the increased quantity of iron produced would be quickly absorbed.

A great increase in the production of gold

In a similar way, the results may be traced which would ensue if there should be a great increase in the yield of gold in Australia, or in the yield of silver in Mexico and Peru. At the present time the annual produce of gold in Australia is about 2,500,000 ounces. Suppose that, from the discovery of rich deposits, or from improvements in quartz-crushing, Australia annually yielded 5,000,000 ounces of gold, instead of 2,500,000 ounces. How would this increased quantity of the precious metals be absorbed? It has been seen that additional supplies of iron would be absorbed by a decline in its value increasing the demand for it. Let us now enquire if an additional supply of gold will not be absorbed in a similar way.

would be absorbed in the same way as a great increase in the production of iron.

It is evident that Australia would not require this additional 2,500,000 ounces of gold for her own use. She will therefore export the gold to other countries, but in what form, and for what purpose, will this gold be exported? In the first place, Australia, having become so much wealthier, would more largely purchase foreign commodities. Every article of luxury or utility which Australia had been previously accustomed to obtain from foreign countries, she would now purchase in larger quantities. The consequence of this would inevitably be, that these commodities would advance in price, on account of the increased demand. Suppose the exports from England to Australia were doubled, this increased demand would cause the price of the articles which compose these exports to rise in England, as well as in Australia. The value of gold, estimated in these commodities, would therefore decline, and thus a tendency is exerted, just in the same way as in the case of the iron, to cause the increased yield of gold to be absorbed, in consequence of a decline in its value.

Gold is also transmitted in the form of money,

Having now considered the case in which the precious metals are sent from the mining countries as a staple commodity of commerce, we will proceed to investigate the second of the two modes by which the precious metals are distributed over the world. At the commencement of this chapter, an enumeration was made of some of the

for the payment of debts,

various purposes for which gold and silver are transmitted from one country to another in the form of money. The reason of this constant transmission is, that gold and silver contain great value in small bulk, and therefore can be sent from one country to another at little cost. The precious metals, moreover, are willingly accepted in exchange for goods purchased by every trading community in the world. Each year we purchase an enormous quantity of tea and silk from China. The Chinese are not very willing to accept any of our manufactured goods in exchange, but they seem eager to sell us as much tea and silk as we choose to take, if we will only pay them for it by gold and silver. Many of the commodities imported from India are paid for by money. Vast sums of specie are also sent from England to India, to pay the various officers of our government, both civil and military, and also to pay the wages of those engaged upon the railways, and other public works which are in the course of being constructed, principally by English capital. In fact, so various are the purposes for which England is obliged to send the precious metals to the East, either in the form of bullion or specie, that the annual export of the precious metals from this country to India and China has, in some years, amounted to 12,000,000*l.*

or for investment.

The precious metals are also transmitted from one country to another, for the purpose of investment. If, according to our former example, the yield of gold in Australia should be doubled, it would be reasonable to conclude, that the whole of this increased gold would not be entirely absorbed by the consequent expansion of trade. Many of those who possessed the gold would send a portion of it to England and other countries, to be invested in various securities, such as funds, railway shares, &c. Statistical returns prove that this is the course pursued. Almost the entire gold which Australia annually yields is sent to England. A portion of this, but probably only a very small portion, pays for the commodities which England exports to Australia; a great part of the remainder is invested in our funds, in railway shares, bank shares, and various other securities, which are bought and sold in our money market. The precious metals which are thus poured into England she again redistributes, each year

sending, as has been just remarked, no less a sum than 12,000,000*l.* sterling to India and China.

The quantity of money in circulation must increase as commerce increases in order that prices may not fluctuate.

In the remarks on price, it was shown that the general prices which prevail in a country are regulated by the extent of its commerce, and by the amount of the precious metals which exist in the country in the form of money. It may, in general terms, be stated, that if the population and wealth of a country increase, prices will decline, unless a greater amount of money is brought into circulation. On the other hand, prices will rise if a greater amount of money is brought into circulation, when there is neither an expansion of commerce nor an increased production of wealth. It is most undesirable that there should be any great fluctuations in general prices; it is true, however, that popular feeling is not unfrequently opposed to this idea, for there are many who still think that general high prices are advantageous to the producers of commodities, and that a general decline in prices would benefit those who purchased the commodities. A general rise or fall in prices means that the standard of value is altered; if there is a general rise in prices to the extent of one hundred per cent., two sovereigns will be only worth as much as one sovereign was worth before; the country would not be richer; the only result would be, that the terms of every money contract would be altered. Those who had fixed money payments to make would only have to give half as much value as before, and all whose incomes were derived from such investments as funds, guaranteed stocks, &c., would have their real incomes diminished one half, for 300*l.* a year would now be worth no more than 150*l.* a year was worth previously. Such consequences would not only be disastrous to individuals, but would also, if of frequent occurrence, give to all monetary transactions an uncertainty which would act most prejudicially upon the interests of commerce. It is therefore of great importance that general prices, or, in other words, the value of gold, should fluctuate as little as possible. General prices are, as previously stated, regulated by the quantity of money in circulation, compared with the amount of the nation's wealth and commerce; hence, in order to prevent a fluctuation in the general prices which prevail in a country, the quantity of money in circulation ought to increase or

Method of adjustment which tends to keep prices constant in England.

decrease as the commerce of the country increases or decreases.

It may appear that such an adjustment can have little chance of being made in England, because she receives gold from so many sources, and again sends it to other countries for so many various purposes. But, in spite of this apparent complexity, there is an agency constantly at work to regulate the quantity of money in circulation, so that the value of gold exhibits great steadiness, and, except within certain small limits, is subject to few fluctuations. The mode in which this agency acts may be explained in the following manner. Suppose that the quantity of gold imported by England from the gold-producing countries during the next year were to exceed by 4,000,000*l.* the amount which she imports during the present year; but that in every other respect there should be no difference with regard to her commerce, either home or foreign, between the next year and the present one. This extra 4,000,000*l.* of gold it may be further supposed, is converted into coin. It might, therefore, appear that an additional 4,000,000*l.* of money is brought into circulation, and that, in consequence of this increased specie circulation general prices would inevitably rise. But this rise in general prices could not long continue; a force would be brought into operation which would exert a tendency to restore prices to the point at which they previously stood. For if such a general rise in price should occur in England during the next year, and no similar rise should take place in other countries, it would manifestly be to the interest of England to purchase such commodities as wheat from foreign countries, in order to avoid the higher prices prevailing in England. Foreign merchants would also be anxious to participate in the high prices current in England, and would therefore increase, as far as possible, the quantity of goods which they export to England. Both of these causes would act in the same direction, and would alike exert an influence to increase England's imports and to diminish her exports. The equation of international trade would therefore be disturbed, a large amount of money would be sent abroad to pay for these increased imports; in this manner the gold temporarily added to England's circulation would be rapidly withdrawn. The

extra 4,000,000*l.* of gold would not be permanently added to England's specie circulation, but would be gradually distributed over every trading country.

The various modes in which the precious metals are transmitted from one country to another have now been described. A special chapter will be devoted to the consideration of the leading effects which have been produced by the remarkable gold discoveries which have been made during the last few years.

Methods by which international debts may be settled.

CHAPTER IX.

FOREIGN EXCHANGES.

IT was remarked in the last chapter that, in foreign commerce, commodities are seldom exchanged by barter; each country usually purchases its imports by money, and sells its exports for money. If coal is exported to France and silk is imported from that country, a cargo of coal is not bartered for so many bales of silk, but the coal is sold for money and the silk is purchased by money. Let it be supposed that A, an English merchant, sells a cargo of coal to B, a French merchant, for 1000*l.*, and that C, another English merchant, purchases from D, a French merchant, a certain number of bales of silk for 1000*l.** It is manifest that there are two distinct ways in which such trading transactions as these may be settled. In the first place, B may pay for the coal he purchases by sending to A 1000*l.* from France to England; in a similar way C may pay for the silk which he purchases by sending to D 1000*l.* from England to France. It is evident that, if this plan were adopted, the risk and expense would be incurred of sending 1000*l.* from France to England, and also of sending 1000*l.* from England to France.

A second very obvious course might be adopted, which would avoid the necessity of transmitting any money from one country to the other, and consequently the expense just alluded to would be saved. If C were instructed to pay the English merchant A 1000*l.*, instead of paying the same amount to D, who lives in France; if also the French merchant B were instructed to pay D 1000*l.*, instead of sending this amount to A in England, the debts due to A

* The currencies of France and England are, in this case, supposed to be identical.

and D for the coal and silk they have respectively sold would be discharged without the transfer of any money from the one country to the other. The course just described is almost invariably adopted in the transactions of foreign commerce; bills of exchange are the means by which the method is carried into practical effect. It is only necessary to explain the nature of bills of exchange, in order to show that they provide a machinery which enables the bargains of foreign commerce to be arranged in such a manner that the least possible amount of specie is transmitted from one country to another.

Bills of exchange.

In the above example, when A sells B a cargo of coal for 1000*l.*, A receives from B a bill of exchange. This bill is a written acknowledgement that B owes A 1000*l.*, and that this amount will be paid at the date for which the bill is drawn, if it is presented either at B's own bankers, or at any other establishment which has confidence in B's solvency. In a similar manner the French merchant D, who sells 1000*l.* worth of silk to the English merchant C, receives from C a bill of exchange for this amount. The English merchant A has therefore in his possession a bill for 1000*l.*, which has to be paid in France, and D, the French merchant, has also a bill for 1000*l.*, which is to be paid in England; if A and D exchange these bills, then A has a bill which will be paid in England, and D has a bill which will be paid in France; therefore both A and D's debt can be discharged without the transmission of any specie whatever from one country to the other. The exchange here supposed to take place between A and D is not usually effected directly by merchants themselves; such transactions form a distinct business, which is carried on by a class of middle men, who are termed money dealers or bill discounters*.

Their nature.

The English merchant A, instead of waiting to exchange his bill with the French merchant D, at once takes it to an English discount house, who readily cash it for him, A paying a small sum for commission. D in a

If the value of imports and exports are equal, transmission of specie is avoided by the use of bills of exchange.

* Popular prejudice attaches to a bill discounter a certain opprobrium, for it is not unfrequently supposed that he is a person who lends money at usurious rates of interest. It is hardly necessary to state that this is an unfounded prejudice; no business is more legitimate or more useful than that which is carried on by the discount houses in a commercial country.

similar manner gets his bill cashed by taking it to a discount house in France; in this way the English discount houses collect all the bills which are drawn upon France, and the French discount houses collect all the bills which are drawn upon England. The French and English discount houses then exchange the bills thus gathered together, and are remunerated for the trouble which they thus take, by the small commission which is paid to them. If, therefore, the value of the exports sold to France is exactly equal to the value of the imports which are bought from that country, the whole of the trade between the two countries can be carried on without the transmission of any specie; in fact the transmission of specie can be as completely avoided as if the whole trade was one of barter, and coal and iron were bartered away for silk and wine.

If a balance is due from England to France, bills of exchange on France will be at a premium about equivalent to the cost of transmitting specie.

It, however, very rarely happens that the money value of the exports which are sold to any particular country is exactly equal to the money value of the imports which are bought from the same country. Suppose that the annual value of England's exports to France is 10,000,000*l*., and that the annual value of the imports from that country is 12,000,000*l*. Under these circumstances it is manifest that the bills which are in the possession of French merchants, and which are drawn in England, will exceed in amount by 2,000,000*l*. the bills which are drawn upon France, and which are in the possession of English merchants. It is, of course, to the interest of the English merchant to pay the French merchant by bills drawn upon France; by doing so the English merchant saves the expense of sending specie to France. The French merchants who have bought the goods we export are for similar reasons anxious to pay the English merchants by bills drawn upon England. But since the value of England's imports from France exceeds the value of her exports to that country, England will have to pay to France a larger sum than France has to pay England; therefore the demand which exists in England for bills drawn on France will exceed by 2,000,000*l*. the demand which exists in France for bills drawn on England. In fact, English merchants have to pay in France 12,000,000*l*., and there are only 10,000,000*l*. of French bills wherewith to make

the payment; some of the English merchants, therefore, will be obliged to transmit specie to the amount of 2,000,000*l.*; those who transmit this specie incur the expense of the transmission. If this expense were two per cent., it would, of course, be to the advantage of the English merchants to purchase bills in France, even if they paid one and a half per cent. premium for them; if bills were bought at this premium it would be cheaper by half per cent. to make payments to France by means of these bills, instead of transmitting specie, which involves an expense of two per cent. English merchants, therefore, will compete for the purchase of bills drawn on France, and this competition will inevitably raise these bills to a premium which is approximately equivalent to the expense of transmitting specie to France. The premium upon bills cannot exceed this amount, because if it did so then it would be cheaper to transmit specie than bills.

Bills on England will be at a corresponding discount.

Similar considerations will show that, in France, bills which are drawn on England will be at a corresponding discount. French merchants have to receive 2,000,000*l.* more for goods exported to England than they have to pay for goods imported from that country. In France there will be 12,000,000*l.* of bills drawn on England in possession of French merchants, and since France has only to pay England 10,000,000*l.*, there will be a demand for only this amount of bills drawn on England. 2,000,000*l.* of the bills drawn on England must therefore be sent to England to be cashed, and the money will then have to be transmitted to France. But if a bill drawn on England is not wanted in France to pay for goods bought in England, such bills must fall to a discount. A money dealer obviously cannot afford to give a merchant more than 98*l.* for a bill on England for 100*l.* if it is necessary to send his bill to England to be cashed, and have the money transmitted to France; since it has been assumed that such transmission costs two per cent. of the specie transmitted. When, therefore, bills drawn upon France are at a premium in England, bills drawn on England will be at a corresponding discount in France. If the state of things which is here described exists, it is technically said that the exchange is against England and in favour of France.

The meaning of saying that in this case exchange is against England, and in favour of France.

The origin of this phraseology may be readily explained. It is evident, that the exchange is against England, and in favour of France, when the commerce between the two countries is such that it is necessary to send specie from England to France. At one time, the belief was universal, and is still very general, that the profit which a nation derives from foreign commerce could be accurately estimated by the amount of specie which she succeeded in drawing to herself from other countries. This belief formed the basis of the Mercantile System. Statesmen of every commercial nation have, in years gone by, vied with each other in framing ingenious devices to encourage the importation of the precious metals, and to impede their export. It is no wonder, then, that the exchange is described as being against a country, when its foreign trade is in such a position as inevitably to require the transmission of specie to foreign countries.

The meaning of exchange at par.

The exchange will, of course, be at par when the value of the exports to a country exactly equals the value of the imports from the same country. If it had been supposed, in the above example, that the value of England's imports from France was 10,000,000*l.* instead of 12,000,000*l.*, then, in each country, the demand for bills drawn upon the other country would be exactly equal to the amount of bills to be disposed of; nothing would cause the bills of either country to rise to a premium, or fall to a discount, and the exchange would in each country be at par.

Currencies have hitherto been supposed identical.

Hitherto, in this chapter, we have supposed that the currencies of different nations are identical. We will now examine a case where two countries, such as France and England, have the different currencies which they possess at the present time, and which, in spite of reason, economy, and covenience, they will probably maintain for many years to come.

How our conclusions must be expressed when the currencies differ.

In the French currency, the franc, as the general measure of value, occupies the same position as the pound sterling does in our own coinage. If the French wish to express the value of a landed estate, or any other kind of wealth, they say that it is worth so many francs. In order to compare values which are thus differently expressed in the two countries, it will be sufficiently exact if we consider that 25 francs are equivalent to 1*l.* sterling. When,

therefore, an English merchant sells 100*l.* worth of goods to a French merchant, the former would receive a bill drawn upon the French merchant for 2500 francs, and not, as we have above supposed, for 100*l.* If imports from France to England exceed in value the exports from England to France, the exchange will be against England, and in favour of France. If this be the case, England will have to make larger payments to France than France has to England, and there will consequently be in England a greater demand for bills drawn on France than there exists in France for bills drawn on England. Consequently, a bill drawn on France for 2500 francs will in England be worth more than 100*l.*; on the other hand, a bill on England for 100*l.* would in France be worth less than 2500 francs. It is manifest that the premium which bills drawn on France realise in England, cannot exceed the cost of transmitting specie from the one country to the other. If the cost of this transmission should be two per cent., then, under the circumstances just assumed, it is quite reasonable to conclude that a bill upon France for 2500 francs would in England sell for 101*l.* 10*s.*, and that a bill upon England for 100*l.* would in France only sell for 2463 francs.

In this case the money of one country may be depreciated relatively to that of the other.

It should moreover be borne in mind, that when the exchange is against one country and in favour of another, specie must not only be sent from the former to the latter country, but the money of the former country will also be depreciated in value, when compared with the money of the latter country.

When the exchange is against England, suppose that a person who intends to travel in France takes 100*l.* to some money exchange office in London, for the purpose of having it changed into French coin. When the exchange is at par, 25 francs are equivalent in value to 1*l.* sterling. The question now arises, How many francs will be given at a money exchange office in London for 100*l.*, when the exchange is against England? Since the exchange is against England, English money must be sent to France to adjust the trade between the two countries, but no French money will for a similar purpose have to be sent to England. The money exchange offices will therefore be compelled specially to obtain French money from France; they must

therefore be compensated for the cost of importing this French coin, and consequently 1*l.* sterling of English money will exchange for less than its equivalent value in French money, namely 25 francs. English money, therefore, would be depreciated in value, compared with French money, and this depreciation would not be avoided, even if the English money were exchanged for French money in Paris, instead of in London. The exchange being against England. English money is sent from England to France; hence there is a surplus of English money in France, or, in other words, English money is at a discount when compared with French money.

Meaning of a favourable exchange in this case.

If, on the other hand, the exchange is in favour of England, the English money will be comparatively of greater value than French money, and 1*l.* sterling will exchange for more than 25 francs. Suppose that a person wishing to exchange English money for French money goes to an exchange office in London. A favourable exchange implies that there will be a surplus of French money in England, because French money has been sent to England in order to adjust the trade between the two countries. People therefore will be anxious to dispose of this French money, for it will not in England perform the ordinary functions of money. English tradesmen will not accept 3 francs instead of half-a-crown, cab fares cannot be paid in French coin, and a person in London with only French money in his pocket would be subject to as many inconveniences as if a traveller were in Paris with only English money in his pocket. Those persons, therefore, in England to whom French money has been sent to pay for the excess of exports to that country, will be anxious to convert this French money into English money. This French money cannot be sent back to France, without involving the cost of transmission. A considerable loss will also be incurred if the other alternative is adopted, and the French money which is in England is melted in order to be sold as bullion. These considerations show that French money must be depreciated, or, in other words, when foreign exchanges are technically said to be against a country, the money of the country will be depreciated, when compared with the money of those countries with regard to which the favourable exchange is supposed to exist.

Causes which may increase the premium or discount on bills of exchange beyond the cost of transmitting gold.

From these remarks it would appear, that when two countries such as France and England are considered, the bills of exchange which are drawn upon either of these countries cannot either rise to a greater premium, or fall to a greater discount, than that which would be represented by the cost of transmitting the precious metals from the one country to the other. Some facts, however, may be recalled, which seem to contradict this conclusion. For instance, it is well known, that when the news of Napoleon's return from Elba was first brought to England, the price of bills drawn upon foreign countries suddenly rose ten per cent. Mr. Mill has remarked, "Of course this premium was not a mere equivalent for cost of carriage, since the freight of such an article as gold, even with the addition of war insurance, could never have amounted to so much. This great price was an equivalent, not for the difficulty of sending gold, but for the anticipated difficulty of procuring it to send; the expectation being, that there would be such immense remittances to the Continent in subsidies, and for the support of armies, as would press hard on the stock of bullion in the country."

The statement that this premium is equal to the cost of transmitting gold must be modified,

When the exchange is against any particular country, or, in other words, when bills upon foreign countries are selling at a premium, it may be thought that this premium must be always exactly equivalent to the cost of transmitting the precious metals. It may be urged, that an unfavourable exchange is caused by the necessity of transmitting specie, in order to pay for an excess of imports over exports; therefore the competition of merchants amongst each other to purchase foreign bills of exchange, in order to avoid the cost of transmitting specie, will force all foreign bills to a premium equivalent to this cost of transmitting specie. If, for instance, the cost of sending specie from England to France were two per cent. an English merchant who had payments to make to France would gain some profit, if he paid as high a premium as 1*l.* 19*s.* per cent. for bills drawn on France. It would therefore seem to be proved, that when the exchange is unfavourable, bills must be at a premium equivalent to the cost of transmitting specie. There are, however, other considerations which modify this conclusion, and which also explain the fact, that when the exchange is unfavour-

able, and bills at a premium, this premium does not remain constant, but varies from day to day.

because the actual transmission of specie may be avoided,

It is no doubt true, that bills would invariably be at a premium approximating to the cost of transmitting specie, if it was always necessary to export specie, when the foreign exchanges happened to be unfavourable to a country. But it must be borne in mind, that the balance which a country has to discharge, when the value of its imports exceeds the value of its exports, may often be liquidated without the transmission of any specie. For instance, foreign commerce is liable to constant fluctuations; various circumstances may at any time occur which may increase a country's exports or diminish its imports; thus an exchange which is unfavourable may be rapidly converted into one which is favourable. If such an event is anticipated, those who have payments to make in foreign countries will delay transmitting specie, or, at any rate, will refuse to pay for foreign bills a premium equivalent to the cost of transmitting specie. Such a delay may be obtained by various arrangements; for instance, a person whose credit is good can always readily renew his bills at the current rate of interest.

and an unfavourable exchange exerts a direct tendency to correct itself.

There are, moreover, valid reasons for assuming that an unfavourable exchange cannot be of long continuance; for specie cannot be withdrawn from the currency of a country, to pay for an excess of imports over exports, without increasing the value of gold in that country, or, in other words, without reducing general prices. But a reduction of general prices at once exerts a tendency to prevent the export of specie. If general prices are lowered in a country, the exports of the country will be increased, because it will be more profitable to sell commodities in foreign countries. Under the same circumstances, the imports will be diminished, because foreign countries will not export so large a quantity of commodities to this particular country, when generally lower prices prevail in it. It therefore appears, that an unfavourable exchange cannot long continue, if the specie which is transmitted to foreign countries is supplied from the money of the country. It has, however, been already stated, that the precious metals are often transmitted from one country to another, as an ordinary commodity of commerce. Such an export of specie

can scarcely be said to denote an unfavourable exchange, since the specie is not withdrawn from the money of a country, and no effect is consequently exerted on general prices. Australia, for instance, annually sends 10,000,000*l.* of gold to England, but this export of gold from Australia does not show that the foreign exchanges are unfavourable with regard to that country; this gold is simply exported from Australia as an ordinary commodity of commerce.

CHAPTER X.

THE FUNCTIONS OF CREDIT.

Credit is a frequent subject of useless discussion,

IN political economy the very name of credit is ominous of confused and never ending discussion. Questions concerning credit may be regarded as the polemics of this science; for the subject of currency is intimately connected with credit. The currency has always been a popular topic for much vague theorising; it seems to be not unfrequently thought that out of the intricacies of the currency problem some specific may be evolved which will spontaneously create wealth, and which will provide an adequate remedy for every national disaster. It will, however, be perceived that the functions performed by credit and the influence it exerts on currency admit of a very simple explanation.

but is in itself simple.

Credit signifies the relation which exists between the borrower and lender; credit consequently implies trust, or confidence. One individual, A, may have a larger amount of wealth than he wishes either to consume or to employ as capital. Another individual, B, may be greatly in want of this wealth, desiring perhaps a greater amount of capital to assist the industry in which he is engaged; B therefore says to A, If you will lend me your wealth, I will pay you a certain annual sum for the use of it, and you may depend upon me to repay it to you at the expiration of a certain time. If A has sufficient confidence in B's solvency and is satisfied with the terms which are offered, A will lend the wealth to B. In other words, B calls his credit into action to borrow wealth from another individual, A; credit therefore simply signifies borrowing and lending.

Credit implies bor-

rowing and lending.

The borrowing does not always take place in the precise manner just described; there is however no difference in principle, although there may be some difference in the mode in which the transaction is conducted.

Not necessarily money.

For instance, it is customary, when wealth is lent, that the loan should be made in money. If, in the above example, the surplus wealth which A is supposed to possess consists of a stock of wheat, he will not, as a general rule, lend this wealth in the form of wheat, for he will almost invariably sell the wheat and then lend the money. Such a course is much more convenient, since a substance which is uniform in its value is always chosen to perform the functions of money. When money is lent, both the borrower and lender very accurately know how much they have respectively to pay and receive. But if instead of money, any other kind of wealth, such as wheat, was lent, great risk would be incurred both by the borrower and lender; because if the wheat were to be repaid at any particular time, it might then be only half as valuable, or, on the other hand, perhaps far more valuable than it was at the time when it was borrowed.

Circumstances affecting credit.

If it is borne in mind that credit is a synonymous expression for borrowing and lending, it will be readily perceived that various circumstances are implied in the existence of credit. In the first place, there can be no credit if man has not confidence in his fellow-man. No one would be willing to lend his wealth, unless he believed that he who borrowed it would repay it. The more confident a man is in this belief the less remuneration will he require for the money which he lends. If A lends two sums of 100*l.* to B and C respectively, and if he places much greater faith in B's honesty and ability to pay than he does in C's, C will be compelled to pay a much greater sum for the use of this loan than B. It need scarcely be said that the annual sum which is paid for the use of borrowed money is termed the rate of interest. Therefore two individuals borrowing at the same time and from the same individual pay a rate of interest which is determined by the confidence which he who lends the money may feel that it will be repaid; or, in other words, by the faith which he places in the solvency of those to whom the money is lent. Since B is supposed to be able to obtain a

Credit is the power to borrow wealth.

loan at a lower rate of interest than C, B's credit is for that reason said to be better than C's; hence, credit should be defined as the power to borrow wealth. This definition is more precise than the meaning given above, but not inconsistent with it. Credit being defined as the relation between the borrower and lender, credit will be good when this relation is easily produced, i. e. when money is easily lent or borrowed; or credit will be abundant when there is a large number of persons ready to enter into the relation on both sides, and a large amount of wealth ready to be lent and borrowed.

This power varies in individuals

and in countries.

It has been said that C's credit would not be so good as B's, if C is compelled to pay a higher rate of interest for money borrowed than B. But it must be remembered that B and C are supposed to borrow money in the same place, and in the same country. If B borrowed in England and C in India, C would be compelled to pay a higher rate of interest than B, although C's credit, so far as depended upon personal character and means, might be quite as good as B's. It would in fact be necessary for C to pay this higher rate of interest, not because his own credit was not good, but because a generally higher rate of interest prevails in India than in England. This is tantamount to saying that the credit of India is not so good as the credit of England. The circumstances which determine whether the credit of any particular country is good or bad are very similar to those on which depend the credit of individuals. If the government of a country is unsettled, a revolution may quickly displace the ruling dynasty, and the obligation incurred by one government may be disavowed by the next which takes its place. In such a case as this those who lend money must be compensated for the increased risk which is incurred. States, either through dishonesty or through inability to pay, have sometimes repudiated their obligations. Those who subscribe to government loans carefully examine the character and the financial position of the states to whom the money is lent. The result of this examination is shown in the price of foreign stocks, for the prices of these stocks form a measure of the credit of different countries. Russia can borrow money at five per cent. when Turkey is compelled to pay even more than ten per cent. The credit of

Russia therefore is at least twice as good as that of Turkey.

Confused notion that credit is capital.

Hence the meaning to be attributed to the word credit, is the power to borrow, whether the credit of an individual, or the credit of a state is spoken of. It may perhaps excite surprise that so simple a signification is given to the word credit, for it is often spoken of in a most mysterious manner. Thus some political economists assert that the principles of this science can only be unfolded to those who properly appreciate the great maxim, that credit is capital. If the true nature of credit is borne in mind, it will be at once perceived that this maxim instead of being pregnant with meaning is a striking indication of confusion of thought and language. The fundamental idea attached to capital is, that it is a fund from which to feed, and otherwise to support labourers. Credit is a power to borrow, and surely labourers cannot be fed on a power to borrow. The power to borrow, if exercised, may obtain capital. Just in the same way, the muscles of a man's arm will, if required, lift fifty pounds; but it would be absurd to say, that his muscles were fifty pounds.

We shall proceed to point out the real assistance which credit lends to the production of wealth; in doing so, it will be shown that if there were no credit much less wealth would be saved, and a great portion of that which is saved would cease to be productively employed. Political economists are not, however, justified in affirming that credit is capital, although it may be shown that the existence of credit materially aids the production and distribution of wealth. If there were no credit, all the capital of the country must be applied to industry by those individuals who actually possess it. A person who saves wealth, but does not wish to employ it upon any industrial purposes, would be prevented using it as capital, if he were debarred from lending this wealth to those who would be willing to devote it to the further production of wealth. The amount of wealth which is in this manner saved by those who wish others to employ it as capital is enormously great. Some conception of the amount may be formed from glancing over the accounts of such institutions as the London and Westminster Bank. The average

Credit aids the production of wealth, by increasing the accumulation and profitable application of capital.

amount of the deposits which are held by this bank exceeds 18,000,000*l.* This vast amount of wealth has been collected from a multitude of depositors, who are in very different positions in society, and who are engaged in the most varied occupations. Experience teaches, that even the most prudently managed bank need not keep in the form of money an amount exceeding one-third of the sums deposited with it, in order to meet the every-day demands which are made upon the bank by those who have deposited money. If, therefore, a bank has deposit accounts amounting to 18,000,000*l.*, at least 12,000,000*l.* of this sum may be applied by the bank to productive purposes. The profits of a banking establishment mainly arise from such an application of their deposits, for the bank either employs the money directly as capital in carrying out some industrial work from which profit is realised; or, as is generally the case, the bank lends the money to others, who use it as capital, and who pay a certain rate of interest for the loans thus received from the bank. But suppose that either from the instability of the government, from a generally low state of commercial morality, or from any other cause, the credit of this country should be destroyed. All confidence in banks and other similar institutions would thus be lost. Those who now deposit in banks the money which they do not require for their immediate wants, would then cease to do so, since they would be prompted to hoard it for the sake of security. Some idea may be formed of the extent to which such an event would affect the capital of the country, when it is remembered, that the credit of the London and Westminster Bank enables that company to gather together 18,000,000*l.* in deposit accounts; of this amount a sum equivalent to at least 12,000,000*l.* is employed as capital.

Method by which banks increase the effective resources of the country.

The foregoing remarks suggest one of the many modes by which credit economises the resources of the country. These deposit accounts represent the sums which tradesmen and others keep to meet their current expenses; for instance, a person who receives an official salary of 1000*l.* does not wish to invest it, because he will have to live upon it during the year. He would also be afraid to keep so large a sum in his own house. He therefore deposits it in a bank, and gradually draws upon it as he requires it.

In this manner, small sums which would not otherwise be invested as capital are collected by banks, and a large proportion of the aggregate sum which is so collected is productively employed as capital.

Accumulated wealth is made useful by credit.

Again, many persons who accumulate wealth would not do so if they were obliged to engage in business themselves, and to superintend the industry which may be supported by the wealth which they save. An individual, A, may have an annual income of 2000*l.* One thousand pounds a year suffices for his ordinary expenditure; he is therefore glad to save the remaining 1000*l.*, if he can profitably invest it. But very probably he does not wish to engage in any industry himself, or if he is already so engaged, he may not wish to extend his operations by bringing more capital into his business. He will therefore be anxious to lend the 1000*l.* which he is disposed to save to some one whom he can trust, and who will pay him interest for the use of it. If it is assumed that the money is lent to B, B probably desires to borrow it, because he thinks that he can so advantageously employ this sum as capital, that there will be a profit remaining to him, after he has paid interest for the use of the loan. If, however, A placed no confidence either in B's credit or the credit of any other individual, he would not lend the 1000*l.* he had saved, and therefore the money would not be employed as capital, unless A chose so to employ it himself. It has however been supposed that he is unwilling to do this; in all probability, therefore, he would spend the 1000*l.*, if the absence of credit prevented him from finding a profitable investment for it. The consequence of this would be, that the industry of the country would be seriously affected, since the accumulation of capital would be impeded.

Undertakings too great for individual resources are carried out by credit.

There is another mode in which the existence of credit most powerfully assists the production of wealth. It has been frequently remarked, that nothing contributes more powerfully to promote the wealth of a nation than its public works. The railways, docks, canals, and roads of this country are not only the surest signs of its wealth, but have also been the chief instruments of its industrial greatness. Such an undertaking as a railway, however, requires an amount of capital for its construction too

large to be supplied by one individual. Such works, therefore, are carried out by a company, who collect the requisite amount of capital from a great number of individuals. These individuals would not entrust their capital to the company, unless they could place confidence in it, or, in other words, unless its credit was good. Moreover, not only must the personal credit of the directors of the company inspire confidence, but it is also necessary that the credit of the country in which the works are carried out should stand high; because great risk will be incurred by sinking large sums of money in works which would be easily destroyed if the government was in a state of anarchy, and property consequently insecure. For instance, some have asserted that England is not justified in maintaining her supremacy in India, and that the people of that country would be benefited if our rule should cease; but the absence of public works has been the chief cause that has impeded the industrial progress of India; her great resources can only be developed by the carrying out of such works as railways, roads, and canals, which are now being made in that country with great rapidity, by capital which is chiefly subscribed in England. It is evident that this capital would not be subscribed, unless it were believed that England's rule would be continued, and that her power would be exerted to protect property. India has been afflicted with centuries of anarchy; one extortionate ruler was only displaced by another, who showed equal anxiety to oppress and rob the miserable people over whom he reigned. The establishment of credit in India, upon a secure basis, is one of the greatest benefits which England can confer upon that country. If by the proper administration of justice the people of India should be made to feel confidence in their fellow-men, wealth would be saved, and the vast resources of that country would be developed by capital accumulated by its own people.

Advantage which England may confer upon India.

Enough has now been said to show, that credit as powerfully as any other agent contributes to the production and accumulation of wealth. Although credit is not capital, yet a great portion of the capital of each country is undoubtedly due to the existence of credit. The higher the credit of a community is, the more

Thus credit creates capital.

completely can every particle of wealth which is saved be economised. Credit, in fact, enables the wealth which is saved to be immediately applied to the most productive purposes.

Having in this chapter described the influence exerted by credit on the production of wealth, we shall in the next chapter discuss the manner in which the prices of commodities are affected by credit.

CHAPTER XI.

THE INFLUENCE OF CREDIT ON PRICES.

Different forms of credit.

WHEN an individual, B, uses his credit in borrowing from A a certain sum of money, it is natural to suppose that A will require some written acknowledgement of B's liability to him. The written acknowledgement of such indebtedness may be given in many different forms, and these various forms may be regarded as the tangible evidence of the fact, that credit has been given and taken. It will be well to describe some of these forms in detail.

Bills of exchange.

We will commence with a bill of exchange; some remarks have already been made upon this instrument of credit. It is well known, that the wholesale transactions of commerce are seldom carried on by ready money. If A sells B a cargo of coal for 1000*l.*, A receives an acknowledgement of the debt due to him in the form of a bill; this bill is a written promise*, that B will pay a certain sum to A on a particular day, and in the bill it is stated what consideration has been given for the debt which has been incurred. The time which is to elapse before the bill falls due is a matter of previous arrangement between A and B, but upon this point different customs prevail in various trades, which are very uniformly observed. When, for instance, a draper purchases goods of a warehouseman, a bill for three months is almost always given, but in the book trade it is customary to give a bill for six months.

They are a convenient form of credit.

A bill of exchange affords a convenient instrument for facilitating credit. If in the above transaction B, who is supposed to purchase the coals, should be a stranger to A, it is probable that A may require some additional security

* The promise is almost invariably given in the form of a written order to a banker, who becomes the medium of payment.

besides the written promise of B to discharge the debt. Some bank with whom B does business may have perfect confidence in him. B will go to this bank and say, A is not satisfied with my promise to pay, but he no doubt would be if a public institution like yours would give him some testimony as to my solvency. The bank grants this request by placing its name upon the back of the bill, which is technically called endorsing the bill. This endorsement makes the bank liable to pay the bill in the event of B refusing to do so; A then accepts the bill, being satisfied with this additional security. Now A may perhaps be in want of ready money, and does not wish to wait until the bill falls due. He therefore gets this bill discounted; discounting the bill means selling the bill for ready money. If the person who discounts this bill for A is satisfied with the security which is provided by the two endorsements which are already on the bill, he accepts the bill without any further endorsement; but if he is not satisfied, he may also require the endorsement of A, the person from whom he purchases the bill. A bill of exchange may be thus bought and sold any number of times before it falls due, and perhaps each time it is so bought and sold it receives an additional endorsement. Thus it not unfrequently happens that before a bill is finally presented for payment it is almost completely covered with endorsements.

Bank notes and cheques

When credit is given by banks, it usually assumes the form either of bank notes or cheques. The distinction between a bank note and a bill of exchange is this: a bank note is a written promise to pay a certain sum whenever it may be demanded; whereas a bill of exchange is a written promise to pay a sum at a certain date, which is stated on the bill. Moreover, in almost every country certain privileges are given to bank notes which are not possessed by any other instruments of credit. Almost every country has a State bank, the bank notes from which are generally made a legal tender. In this country, any debt can be discharged by paying the sum in Bank of England notes, and, similarly, in France a debt can be discharged by paying the amount in notes issued by the Bank of France. But the notes which are issued by private banks are not a legal tender. State banks are

as issued by State banks

subject to certain restrictions, which vary in different countries. Our own bank is regulated by the Bank Charter Act, the provisions of which we shall hereafter explain. It is only necessary here to state, that this Act provides securities that the Bank of England shall not issue notes beyond a certain amount, unless it possesses a corresponding quantity of gold to provide for their payment. Although a Bank of England note is as legal a tender as gold coin, yet our currency is said to be convertible, because the Bank of England is bound, if the demand is made upon it, to give gold in exchange for its notes. But the currencies of some other countries are inconvertible, and when this is the case, no one has a right to demand coin in exchange for bank notes, although they may be a legal tender.

or private banks.

Besides the notes which are issued by the Bank of England, private banking firms are allowed to issue notes under certain conditions. A moment's consideration will show, that a bank note, whether issued by a State establishment or by a private firm, is simply a convenient form for bringing into practical use the credit which may be possessed by the bank. All those who place perfect confidence in the solvency of a particular banker will be willing to accept his notes. A banker therefore, whose credit is good, can circulate a great number of his notes in his own neighbourhood, his notes being willingly accepted by those to whom he is known. Such notes however are not convenient for payments which have to be made at a distance, to those to whom the banker is a stranger. The notes of private bankers are never made a legal tender, and if the notes are presented for payment at the bank from which they are issued, it is compulsory that either coin, or Bank of England notes should be given in exchange for them. It is, however, manifestly to the advantage of a banker to issue notes; for suppose 60,000*l.* of these notes are kept in circulation, it is ascertained, by experience, that an amount of legal tender equivalent in value to one-third of the notes issued will be sufficient, if kept as a reserve, to meet all the notes which are presented for payment. A banker, therefore, whose notes circulate to the extent of 60,000*l.*, has 40,000*l.* at his free disposal, to place in some profitable investment.

Use of cheques.

It is hardly necessary to describe a cheque. Individuals deposit money with bankers for purposes of convenience or safety, and of course they can withdraw any portion of this money when they have a payment to make. But if A wants to pay B 1000*l.*, A does not first withdraw 1000*l.* from his bank and pay the amount to B, who would then probably deposit the amount received, in the bank with which he might happen to do business. A much more convenient course is adopted: A, instead of paying the money to B, gives him a cheque, which is simply an instruction to A's banker that the amount stated in the cheque should be paid to B when he demands it. A is thus saved the trouble of withdrawing money from his bank; B is also saved the trouble of sending so much money to his bank, for now he has only to transmit the cheque to his banker, who will place the amount to his account, B's banker taking the trouble of getting the cheque paid by A's banker. The trouble of doing this, however, is very small, for cheques will be drawn upon B's banker, and in this manner the cheques drawn upon one bank are exchanged for those drawn upon another. This exchange is daily carried on, in London, at an establishment called the Clearing House. It has been calculated that more than 1,000,000,000*l.* of cheques are annually exchanged in this manner. In order to effect this exchange, the amount of specie required does not exceed 200,000*l.*

Credit is to some extent a substitute for money.

The chief forms which credit assumes have now been described. It will be perceived that bills of exchange, bank notes, and cheques perform many of the functions of money. Credit, therefore, considered in this aspect, may be regarded in a certain degree as a substitute for money. We are thus led to the main subject of enquiry in this chapter, which proposes to investigate the influence produced by credit on prices. We will commence this investigation by explaining the manner in which bills of exchange, bank notes, and cheques respectively perform the functions of money.

The functions of money may be performed by

Although, in the wholesale transactions of commerce, commodities are almost invariably sold for money, yet it very rarely happens that any money is interchanged between the buyer and seller. In such transactions, bills of

bills of exchange.

exchange provide a ready substitute for money; it also frequently happens that the same bill of exchange supplies a substitute for money in many transactions besides the original one which first called the bill into existence. We have already said that bills are often almost covered with endorsements before they are finally presented for payment. If, for instance, B receives from A a bill for 1000*l.*, B may endorse this bill, and with it purchase commodities to the value of 1000*l.* from C. C in a similar way may again endorse the bill, and with it purchase goods from D, and the same process may be continued any number of times. But when this is done, it is manifest that the bill is as efficient in its purchasing power, or, in other words, exerts the same influence in buying and selling, as if A paid B a thousand sovereigns instead of the bill, and B purchased goods from C with this money instead of paying C for the goods by means of the bill. As long therefore as this bill is kept in circulation, it provides a substitute for an equivalent amount of money. If bills were not used, and if no other substitute for money were provided, it is manifest that, when commodities were bought and sold for money, the money must be forthcoming. In discussing the laws of price, the principle was established, that general prices depend upon the quantity of money in circulation compared with the wealth which is bought and sold with money, and also upon the frequency with which this wealth is bought and sold before it is consumed. If more wealth is produced, and an increased quantity of wealth is also bought and sold for money, general prices must decline unless a larger quantity of money is brought into circulation. Suppose, for instance, that the production of every kind of wealth is doubled in this country, that every one doubles his purchases of commodities, and, at the same time, there is no increase in the amount of money in circulation. Upon this hypothesis, each individual, although he is supposed to purchase twice as much of every commodity as he did before, will only possess the same amount of money with which to effect these purchases. He will, therefore, be only able to give the same amount of money for double the quantity of each commodity he purchases; but this is tantamount to saying that general prices have declined one half. In fact, if there should be

As wealth increases, prices tend to decline; but this tendency is stopped by the use of bills.

an increased production of wealth, if there should be more buying and selling, or if any other circumstance should occur the effect of which is to require the circulation of a larger amount of money, the value of money must rise; or, in other words, general prices must decline, unless an increased supply of money is forthcoming, so that a larger amount may be brought into circulation. When buying and selling are effected by bills of exchange, the necessity for money is as completely dispensed with as if the transaction was carried on by barter; those trading transactions therefore in which bills of exchange are employed may be almost indefinitely extended without rendering it necessary to bring an increased amount of money into circulation.

If bills were not used, the money in circulation must increase, or prices decline;

A consideration of some of the consequences which would ensue if bills of exchange did not exist will perhaps more plainly indicate the influence which they exert upon prices. Suppose that all the commodities which are now bought and sold by means of bills of exchange were paid for by money; a largely increased amount of money would be required to be brought into circulation. If this additional supply were not forthcoming, money would rise in value, or, in other words, general prices would decline. Hence bills of exchange, in many classes of transactions, are a convenient and complete substitute for money; consequently, if it were not for bills of exchange, one of two things must happen. Either the money in circulation must be increased, or the money already in circulation must become more valuable, since a greater amount of money will be required to carry on the trade and commerce of the country. But to say that money becomes more valuable is equivalent to stating that general prices decline.

hence prices are not affected by bills, but by the credit which they imply.

It therefore appears that we cannot, by a simple negative or affirmative, answer the question whether an increased issue of bills of exchange affects prices. All that can be said is this—If the buying and selling now carried on by bills of exchange were effected by money, then one of two things must occur—either more money must be brought into circulation, or general prices must decline. The influence, however, which is exerted upon prices by bills of exchange is not due to anything peculiar in the nature or form of a bill of exchange; it is not the bill which produces the influence, but the influence is produced by the credit

The same effect might be produced by book credits,

which is given. The bill is not this credit, but is simply a testimony or record of its existence. The truth of this assertion is illustrated by the fact that buying and selling may be carried on by book credits, instead of by bills of exchange. Suppose A sells B a cargo of coals for 1000*l.*; A, instead of receiving a bill of exchange from B, may debit him with the amount in his ledger. Let it be also assumed that A buys a quantity of coal for 1000*l.* from a third person C, and that C again buys 1000*l.* worth of timber from B. Then A appears a debtor for 1000*l.* in C's ledger, and C appears a debtor for 1000*l.* in B's ledger. Payment will therefore be made by cancelling each debt, for A will cancel B's debt, if C will cancel A's, and this of course C will be willing to do if B will cancel C's. In this case, although the buying and selling are nominally made for money, yet the resort to book credits enables money to be as completely dispensed with as if bills of exchange had been used. It is therefore credit, and not the particular form which credit may assume, that enables money to be dispensed with, and consequently produces an influence on prices.

but not to so great a degree.

Bills of exchange are, however, more potent in their influence on prices than book credits, simply because bills of exchange facilitate credit, and call a vast amount of credit into action which would never be given if book credits were always adopted instead of bills of exchange. For instance, if A receives from B a bill of exchange for goods sold, then A has the power of increasing his credit by means of this bill, for he can actually convert the bill into money, or he can purchase commodities with it; but if A, instead of receiving a bill from B, simply has a register of his debt in his ledger, he would have no means of buying or selling by means of this book credit.

Bank notes are a still more powerful instrument of credit.

Although in many transactions bills of exchange provide a perfect substitute for money, yet bank notes seem more completely to perform all the functions of money; we will therefore next proceed to enquire into the influence exerted upon prices by credit when in the form of bank notes. A bank note is a far more complete substitute for money than a bill of exchange, because a bank note is used in those cases in which money would necessarily be employed, if bank notes did not provide a substitute. The transac-

tions, however, which are effected by bills of exchange might, as we have seen, be often performed by book credits. Bills of exchange are seldom used, except in the wholesale transactions of trade and commerce, but bank notes form a part of the ready money which a man keeps in his possession, to supply the ordinary wants of life. If, therefore, an amount of coin equivalent to one third of the bank notes issued is kept by the bankers as a reserve, it is manifest that each bank note which is in circulation enables an amount of money to be dispensed with equivalent in value to two thirds of the sum which the note represents. The bank note circulation of Great Britain varies between 30,000,000*l.* and 32,000,000*l.* If it is 30,000,000*l.* sterling, it may be approximately said that, in consequence of bank notes, a substitute is provided for 20,000,000*l.* of coined money. The same proposition may be expressed in different words, by saying that, if no bank notes were in circulation, 20,000,000*l.* more money would be required. If this additional amount were not forthcoming money would become scarcer, or, in other words, general prices would decline.

The effect of largely increasing the bank note circulation would vary under different circumstances.

It may be asked, what would be the effect upon prices if the bank note circulation were suddenly increased? This suggests one of the most disputed of the currency questions. As previously stated the bank note circulation of England is placed under various restrictions, the nature of which will be presently detailed. The purpose we have in view, at this stage of our enquiry, is to investigate the effect which would be produced on prices if the bank note circulation was largely increased by a removal of all restrictions which now limit its amount. We conceive that the effect which would be produced entirely depends upon circumstances. Let it be supposed that there is no change in the population, or in the commercial condition of the country. If, under these circumstances, an increased issue of notes was added to the money circulation of the country, prices would manifestly rise, because there would be now more money in circulation to carry on the same amount of buying and selling which was previously conducted by a smaller amount of money. If, however, the additional notes which are issued simply cause a corresponding amount of bullion to be withdrawn from circulation, it

is manifest that no effect is produced on prices. The only result is, that the trade of the country is carried on more economically, because these notes, which are simply pieces of paper of no intrinsic value, perform with equal efficiency all the purposes which were previously fulfilled by the gold, now supposed to be dispensed with. Consequently, the economy of this substitution is evident; gold is a valuable commodity, requiring much labour and capital to obtain it. We therefore have the following principles to guide us in an enquiry into the effects of a bank note circulation.

The important question is whether they displace an equal amount of bullion, or increase the whole circulation.

1st. If bank notes simply occupy in the monetary circulation of the country the place of a corresponding value of bullion, these notes produce no effect on prices.

2nd. If it can be shown, that either by the repeal of the Bank Charter Act, or by any other cause, the bank note circulation of the country can be increased without withdrawing from circulation a corresponding amount of coin, it is manifest that the aggregate money circulating in a country will be augmented, and general prices will, as a consequence, undoubtedly rise.

Cheques are a less complete substitute for money.

Although a cheque is not so complete a substitute for money as a bank note, yet cheques often provide facilities for dispensing with money which are possessed by no other instrument of credit, except a bank note. It has already been explained in what manner cheques render the employment of money unnecessary. As an example it has been stated that the returns of the Clearing House show that payments to the amount of more than 1,000,000,000*l.* sterling per annum are made by means of cheques, without requiring more than 200,000*l.* of specie. There can be no doubt that, if it were not for cheques, the great majority of these payments must be made with money; in this case the money circulation of the country would have to be increased to a corresponding amount. If it were not so increased, a greater amount of buying and selling would have to be performed by the money already in circulation. This is equivalent to saying that general prices would decline.

Credit exerts a more powerful

We have now investigated one part of the influence which is exerted by credit on prices: it must however be borne in mind that credit exerts upon prices another

distinct kind of influence, which as yet has been scarcely noticed. Hitherto, in this chapter, those effects on prices have alone been noticed which are due to the circumstance that credit supplies, when in the form of bank notes, bills of exchange, or cheques, a substitute for money, more or less complete. But by far the most powerful influence exerted by credit on prices is caused by increasing the purchasing power of the country. If it were not for credit, the demand for commodities would frequently be much less than it is. In fact, when credit is freely given, the demand for a commodity may increase without any assignable limits; when the demand is so stimulated, prices may temporarily rise in a very striking manner. We lay particular stress upon the word temporarily, because as frequently stated the price of all commodities, except those whose supply is absolutely limited, must always in the long run be regulated by their cost of production. But although cost of production determines a point towards which the prices of commodities must ultimately have a tendency to approach, yet the prices of commodities may temporarily either very much fall short of their cost of production, or be greatly in excess of it. These variations in price are due to sudden fluctuations in the demand and supply of any particular commodity; nothing exerts so powerful an influence in producing these fluctuations as an extended system of credit. If no credit were given, and if everything were consequently paid for by money directly it was purchased, there would be little speculation; commodities would generally be bought as they were wanted; everything connected with trade would be regular and uniform, and there would be no great variations in the demand. This regularity in demand exists with regard to those commodities which are not, from their nature, bought upon credit for speculative purposes, and the price of such commodities never deviates much from the cost of producing them.

influence on prices

by increasing the purchasing power of the country.

Variations in price are produced by credit,

Bread is one of these commodities; it is bought to be immediately consumed, and no one uses his credit to accumulate large stores of bread; hence the price of bread is always regulated by its immediate cost of production. The price of bread of the same quality is uniform throughout large towns and districts, and if the cost of producing

and are great in articles bought for speculative purposes.

a loaf of bread is slightly lessened by a fall of 2*s.* a quarter in the price of wheat, the effect of this is shown by a corresponding fall in the price of bread. On the other hand, many commodities, such as wheat, are largely bought on credit for speculative purposes, and are consequently subject to the greatest fluctuations in the demand. Suppose some event occurs which forbodes a coming war; merchants may then think that, if the war takes place, our supplies of various commodities will be greatly diminished; they therefore at once commence to make speculative purchases. Every man can use his credit as a purchasing power; if he exerts his credit to purchase a commodity, he of course assists in increasing the demand for it. When the first rumours arose in 1854 of coming hostilities with Russia, large speculative purchases of tallow were made, because it was thought that all importations of that commodity from Russia would be stopped. The merchants who speculated in tallow employed their credit; they did not withdraw their capital from profitable undertakings in which it might be invested, for the purpose of purchasing this tallow; they simply employed their credit in the form of bills of exchange, and paid for the tallow with these bills. They no doubt intended, either to re-sell the tallow before the bills fell due, or, if they did not do this, they would probably pay a certain sum for permission to renew the bills from time to time. If a commodity in which speculation thus takes place does not rise in price as anticipated, many of the speculators are sure to be unable to meet their credit engagements, and a commercial crisis inevitably ensues. Each commercial crisis affords most striking instances of the wonderful extent of an individual's purchasing power, when he brings his credit into full activity. Mr. Mill refers to a very remarkable speculation in the tea trade, which is described in Tooke's 'History of Prices.' We will give a brief summary of some of the facts, which are very instructive.

Example of tallow in the Russian war.

Tea in the war with China.

It was expected, in consequence of our dispute with China in 1839, that there would be a rise in the price of tea. Many retail grocers were therefore extremely anxious to lay in a stock of tea, and they accordingly commenced making speculative purchases. One grocer is particularly

mentioned who had a capital of 1200*l.*, all of which was locked up in his business. If, therefore, he wished to purchase tea and pay for it with money in his possession, he probably would not have been able to lay out more than 100*l.* But he adopted a different course, and employed his credit to its full extent as a purchasing power. He ordered chests of tea from every wholesale tea merchant with whom he was accustomed to deal; they did not think of consulting each other, and had therefore every reason for supposing that the tea which he thus purchased was required for the legitimate purposes of his trade. He, probably following the custom of his trade, gave bills due at three months. Before, however, these bills fell due, tea had risen in price, and he was therefore enabled to realise considerable profits. Now it will be observed, that here was a grocer in a small way of business, who purchased large quantities of tea, and who therefore exerted an influence in increasing the demand for it without employing a single farthing of money, either in the form of coin or bank notes. The profits which the grocer, in the first instance, thus realised, he applied in the following manner to extend his speculations. If a grocer buys tea upon credit, it is customary that he should deposit as a security 2*l.* upon each chest of tea purchased. The realisation of profit in the first instance enabled the grocer to pay this deposit, and his speculative dealing rapidly expanded. A few cargoes of tea, however, unexpectedly came to London, having sailed before the Chinese ports were closed; a sudden fall in price took place, the grocer could not meet his engagements, and in the course of his examination as a bankrupt it was shown that he had purchased 4000 chests of tea at a cost of 80,000*l.*, the loss upon which was 16,000*l.* In this case, therefore, a comparatively poor man was enabled, by using his credit as a purchasing power, in a short time to buy 80,000*l.* worth of tea. Many others adopted the same course, and every grocer in the country might have employed his credit in a similar manner. It is, therefore, almost impossible to assign any limit to the rise of price which may temporarily take place when the demand for commodities is stimulated by purchases made upon credit. The rise, as we have before said, was only temporary, for

Immense purchasing power produced by credit.

directly a panic commences credit is as sparingly allowed as it was before recklessly given. Prices rapidly fall, and they often sink as much below that position of equilibrium which is determined by cost of production as before they went beyond it.

The supposition that bank notes are the most efficient purchasing power gave rise to the Bank Charter Act.

It must be evident, from the examples just given, that every contrivance which facilitates the employment of credit as a purchasing power increases the influence of credit on prices. Many people believe that bank notes are more efficient as a purchasing power than any of the other instruments of credit. As it is conceived that commercial panics are caused by a reckless employment of credit, it is concluded that restrictions upon the issue of bank notes provide the best remedy for the prevention of panics. These opinions prompted the passing of the Bank Charter Act. This Act was introduced, and carried by the late Sir Robert Peel in 1844; its leading provisions admit of a brief and simple explanation. The main object of the measure was to restrict the issue of bank notes; it was therefore enacted that the Bank of England should not be permitted to issue notes beyond a certain amount unless a corresponding amount of specie or bullion were retained by the bank. The limit thus fixed was 14,000,000*l.*, it being thought that the funds, and various other property possessed by the bank would provide a sufficient security to meet an issue of 14,000,000*l.* of notes. The bank was, however, compelled to keep in its possession specie exactly equivalent in value to every note that was issued beyond 14,000,000*l.* If, for instance, the Bank of England's note circulation is at any time 18,000,000*l.*, the bank is compelled to retain in its coffers 4,000,000*l.* of bullion or specie. In order that the public may feel sure that this obligation is faithfully obeyed, the bank is compelled to publish in the 'London Gazette,' a weekly statement of its accounts. This statement shows at a glance what is the specie reserve at the bank, and what also is its note circulation. The Bank Charter Act also provides that no banks established after the passing of the measure should be permitted to issue their own notes, and the old banks were not allowed to increase the issue of their own notes. High financial authorities still continue to differ as to whether this Act has the power of doing what it was intended to effect.

The Act was not wanted to secure the convertibility of the bank note,

Many people suppose that the Act secures the convertibility of our paper currency, but this is entirely erroneous. If the act were rescinded to-morrow it would still be as obligatory on the Bank of England as it was before to give specie for every note presented to them, if the demand was made upon them to do so. The Act compels the bank to keep a certain amount of bullion or specie to meet these demands, but this obligation need scarcely be enforced in order to preserve the solvency of the bank. The remarkable prudence and wisdom which distinguish the management of that institution would always be an adequate guarantee that sufficient bullion and specie would be voluntarily retained in the bank to meet the demands made upon it. But those who most strongly support the Act base their advocacy not upon any security which is provided for the solvency of the bank, but upon the restriction which the Act imposes upon the unlimited issue of bank notes. These persons maintain, that during a period of active speculation, the bank, if left uncontrolled, might most powerfully stimulate credit, by large issues of bank notes, and thus contribute to force up the prices of various commodities to an unnatural point. This phenomenon always accompanies a commercial crisis. There can, however, be no doubt that the credit purchases which are made in times of active speculation are rarely, if ever, effected by means of bank notes. Bills of exchange and book credits are the instruments of credit which are almost invariably employed. For instance, the retail grocer who in 1839 was enabled to purchase 80,000*l.* worth of tea, although he only possessed a capital amounting to 1200*l.*, all of which was locked up in his business, never thought of employing bank notes. The Bank Charter Act did not then exist; the bank was perfectly free to issue as many notes as it pleased, yet it was just as difficult for this grocer to obtain bank notes on credit as it would have been for him to have borrowed money. It would, therefore, have been impossible for him to have speculated to any considerable extent if he had used bank notes, instead of either bills of exchange or book credits. It thus appears that, at any rate in the primary stages of speculation, credit engagements are freely entered into, whether the issue of bank notes is restricted or not.

but to prevent prices being raised by an undue issue of bank notes.

This can be done without bank notes

in the first stages of speculation.

The Bank Charter Act comes into operation at a later period.

It is, however, maintained that the Bank Charter Act comes into operation in the later stages of speculation, for after these credit purchases have been continued some time many find it difficult to meet their engagements; bills begin to fall due, and an anxiety is shown to get them renewed. This, therefore, is the time when the bank is pressed to discount bills; large amounts will be willingly paid for accommodation, and the rate of discount consequently rapidly rises. This rise in the rate of discount affords the bank an opportunity of realising large profits, if freely permitted to issue an unlimited amount of bank notes. But the Bank Charter Act effectually restricts the amount of accommodation which the bank can give, for it cannot issue notes without purchasing an equivalent value of bullion; if compelled to do this, the profit of the transaction is of course destroyed. In 1848, in 1857 and in 1866, the three panics which have occurred since the passing of the Bank Charter Act, the pressure upon the bank for accommodation was so severe that the Act had on all these occasions to be temporarily repealed. By adopting this course, the pressure was immediately relieved. The failure of those was not prevented who had speculated recklessly and unfortunately, but the increased accommodation which the bank was enabled to give saved many firms, who were not only solvent but wealthy, from succumbing under the sudden contraction of credit which is sure to accompany every panic. If, therefore, this relief had not been provided, many would have been ruined without any fault of their own; for even the most prudent firms in this country conduct their business upon a system of credit; they pay for the goods they purchase by bills, and they are justified in assuming that, if they wish it, these bills will be renewed, or advances will be made to them by their bankers, unless some very exceptional circumstances should occur. The credit of a solvent firm may perhaps be partly based upon the possession of property, and in ordinary times there is no difficulty whatever in immediately obtaining money upon this property to almost the full extent of its value. However, in the general course of commerce a merchant is seldom required to settle any of his transactions by money, for he both pays and receives bills in almost all his transactions. But, in a commercial

Temporary repeal of the Act in 1848, 1857 and 1866.

Importance of the relief afforded by this repeal.

panic, there is a complete collapse of credit; bills which were renewed before will not be renewed now unless some ruinous premium is paid amounting perhaps to ten, twelve, or fifteen per cent. A general feeling of distrust and insecurity is prevalent throughout the commercial world, and consequently no one will, if he can avoid it, accept anything but money in payment of the debts that are due to him. All the usual sources of accommodation are closed. Banks can no longer afford to make advances, for the pressure upon them is particularly severe, since their customers hastily withdraw their money which may have been left on deposit. During a commercial panic there is a dearth of the legal currency of the realm; in fact, this must be so, because when credit collapses payments have to be made in money which were never paid in money before; consequently a largely increased supply of money is temporarily required, and if it is not forthcoming, money must obtain a scarcity value, just in the same way as the value of any other commodity would be affected if the demand for it were suddenly and largely increased.

The relief was afforded with remarkable ease.

None of the ordinary substitutes for money, such as bills of exchange, will suffice to relieve this scarcity, because these substitutes are only instruments of credit, and the severity of the panic is due to a thorough collapse of credit. But Bank of England notes, if allowed to be issued, will afford relief, because as long as these notes are payable on demand, people are as willing to accept them as the current coin of the realm. Now it is very remarkable that, on the three occasions when the Bank Act was suspended, relief was afforded by an extremely small additional issue of bank notes. In 1857 and in 1866 this additional issue of notes did not exceed 1,000,000*l.* sterling; in a few days the majority of these notes were returned to the bank, and the circulation was again in its normal condition. The relief may, therefore, be really regarded as a sentimental remedy. When the Bank Act was suspended, people thought that there would no longer be a dearth of money; they were, therefore, not so desirous to receive every payment in money. Credit was thus again gradually given as before, and the bank was consequently not obliged permanently to increase its issue of notes, since the cause no longer existed which had so stimu-

lated the demand for money that it obtained a scarcity value.

In the ordinary condition of trade the Bank Act is inoperative.

When trade is in its ordinary condition, we believe that the amount of the Bank of England note circulation would be the same, whether the Bank Act existed or not. As long as bank notes are convertible into coin upon demand, the amount of bank notes which is kept in circulation is determined by exactly the same causes as those which regulate the amount of the copper and silver coinage. Unless something new should occur, such as a change in the mode of conducting business, it would be impossible to keep in circulation double the amount of our present copper coinage. Bankers could not induce their customers to take copper instead of silver; when a tradesman draws from his bank the wages to pay his workmen, he takes just as much gold, silver, and copper money as he believes he shall require; the pence he only uses to pay odd sums, for he would never think of burdening one of his workmen with eighty-four cumbrous pence, instead of paying him the amount in silver. Similar considerations apply to bank notes; for certain purposes they are extremely convenient. If a person who is travelling takes a considerable sum of money about with him, bank notes are particularly useful; they occupy so much less space, and are so much lighter than gold. But the repeal of the Bank Act would be as powerless to make an individual use bank notes in those cases where he now employs gold, as it would be to induce a man to use copper instead of silver money. We therefore conceive that, in ordinary times, the amount of the bank note circulation is entirely independent of the Bank Act; we also think that this Act exerts no influence in the first stages of speculation.

The ordinary bank note circulation is not affected by the Bank Charter Act.

Prejudicial effects of the Act.

When, however, a continuance of excessive speculation produces a commercial panic, it has been shown, on the three occasions when such a panic occurred, that credit cannot be restored without a suspension of the Act. We therefore consider the act to be prejudicial in its effects. It is generally practically inoperative; it is true, that in a commercial crisis its effects are felt, but on such occasions its suspension has always hitherto become necessary. Nothing can be more unfortunate than these repeated suspensions; no one can tell from hour to hour what will

be done, and yet every one is sure, that if the Act is suspended, an enormous revulsion will take place in the money market. The rate of discount in 1857 and in 1866 rapidly fell from ten to four per cent. All this uncertainty increases the excitement and distrust which are sure to be too prevalent in a period of financial difficulty.

Inconvertible bank notes.

Inconvertible bank notes are the only other instruments of credit which have not yet been noticed. In our own country, every bank note can be immediately exchanged for coin. A private bank is obliged to give either Bank of England notes, or coin, for the notes which it issues; and the Bank of England is obliged to give coin in exchange for all its notes; our bank note currency is therefore said to be convertible. The currencies of some other countries are not in this position, and at the commencement of the present century our own Bank notes were not convertible into coin. From the year 1797 to 1819, cash payments were suspended in this country, or, in other words, during this time the Bank of England was permitted to issue notes without being obliged to give coin in exchange for them. At the present time the United States afford the most striking example of a large issue of inconvertible paper currency. The civil war which was so vigorously waged in that country severely tried the resources of the national exchequer; it was consequently attempted to meet the financial pressure by an issue of treasury notes, which may be regarded as bank notes not convertible into coin on demand. We shall presently consider some of the effects of this issue of treasury notes, and we shall trace its influence on prices.

They may or may not be a legal tender.

Before proceeding further with this subject, it is necessary to point out the very different consequences which follow, according as an inconvertible currency is or is not made a legal tender. If an inconvertible currency is made a legal tender, an opportunity is immediately afforded to a government to defraud its creditors to an unlimited extent, and the whole monetary arrangements of the country at once suffer a most disastrous disturbance. Great stress has already been laid upon the fact, that when a currency is convertible, the bank note circulation cannot be forced beyond its natural limits, because, if the bank note issue is unduly increased, the notes are sure to be almost im-

mediately returned to the bank, in order to be exchanged for coin. But there is no practical limit to the issue of inconvertible bank notes, and this is especially the case if these notes are made a legal tender. A government may pay the interest of its debt in these notes. Government contractors may also have the debts due to them discharged in these notes; the contractors, for instance, who supplied the Federal army with stores and provisions were paid in this manner. In fact, so indefinite is the power of issuing inconvertible notes, that the American Government was enabled in a few months to float 40,000,000*l.* of these notes, whereas the Bank of England notes in circulation do not exceed half this amount. Inconvertible notes will be as freely accepted as coin, if people have confidence that an inconvertible currency is only a temporary expedient, and that the government will take scrupulous care never to permit the issue of inconvertible notes to exceed an amount which can with certainty be ultimately redeemed.

Within certain limits they need not disturb the finances of the country,

It is, therefore, possible to conceive that exceptional circumstances may occur, during which an inconvertible currency may be issued, if kept within proper limits, without disturbing the finances of the country. For instance, there can be little doubt that the American civil war created a demand for a greater amount of money to be circulated in that country; more money was in fact required, because the raising of a large army, and supporting it in the field, would render it necessary to make many more payments in money. If the issue of an inconvertible currency in America had gone no further than to satisfy this demand for a greater sum of money to be brought into circulation, no one's confidence in the financial credit of the government would have been shaken, and the inconvertible currency would have exerted no effect on prices. But the American Government far outstepped these legitimate limits. These notes therefore are now no longer willingly accepted, and the consequence is that they have fallen to a discount, or, in other words, gold has advanced to a premium. At the present time, gold is in America at a premium of about thirty two per cent., consequently notes which represent 132*l.* will only exchange for 100*l.* of specie. It therefore follows, that if

but if increased beyond those limits the circulation must be depreciated.

the government or other individuals should pay with these notes debts which were incurred before the currency was depreciated, they would virtually defraud their creditors of thirty two per cent. of the amount which in equity is due to them.

If, therefore, an inconvertible currency is made a legal tender, nominal prices may be forced up in proportion to the extent to which the currency is depreciated. Suppose, for instance, that the American Government wished to contract for a supply of rifles. A rifle manufacturer would say, I am perfectly willing to sell my rifles at 10*l.* each, but if I sell them to the American Government, I must obtain at least 13*l.*, for they will pay me in their depreciated currency, and 13*l.* in their notes is barely equivalent in value to 10*l.* in gold; the nominal price of rifles in America would rise thirty per cent., in consequence of its depreciated currency, and the same would be the case with every other commodity.

If not made a legal tender no injustice is done, but the credit of the Government is destroyed by a large issue of them.

It cannot be said that any injury or injustice is done if inconvertible bank notes are not made a legal tender, although the issue of these notes may indicate a financial policy disastrous to a country. When these notes are not a legal tender, no one is obliged to accept them; if an individual does take them, and afterwards discovers that the government cannot meet its obligations, the loss which he suffers is as much his own creation as if he were to accept a bill of exchange from an insolvent trader. Such notes cannot exert the same nominal influence on prices as that just ascribed to inconvertible notes when made a legal tender. If inconvertible notes are not made a legal tender, there is no reason why prices should be estimated in them. Such notes would always serve as a barometer to measure the credit of a government, for as confidence in a government diminishes, these inconvertible notes would be constantly falling to a greater discount. The French Revolutionary Government of 1792 adopted the expedient of issuing inconvertible notes in the form of assignats, and they attempted to maintain the value of these assignats by assuring the people that they were the paper representatives of the confiscated landed property of France. But the value of an inconvertible note is not increased, although it is nominally issued as the representative of certain property,

unless people can have an assurance that the holders of these notes will have a legal claim to the property, and that no more notes will be issued than will be equivalent in value to the property on which their security is pretended to be based. What would be the value of a mortgage on an estate, if the owner of it could create any number of mortgages, all of which should constitute an equal claim to the property? The French people soon showed that they placed no faith in these assignats, which became so rapidly depreciated, that an assignat of 2000 francs was scarcely sufficient to purchase a cup of coffee.

CHAPTER XII.

ON THE RATE OF INTEREST.

Rate of interest.

IN the minds of most people, every question concerning currency is so intimately connected with the rate of interest, that it will be advisable in this place to discuss the subject in a distinct chapter. It is the more necessary that we should take this course, because the price of many kinds of property is directly regulated by the current rate of interest.

It was observed, in our remarks upon profits, that gross profits are made up of the three following components:—First, insurance against risk; secondly, wages of superintendence; and thirdly, interest on capital. This last component may be regarded as a remuneration for saving. The amount of the last component may be estimated by the interest which can be obtained upon capital, when invested in securities which, according to the general opinion of the community, involve no risk whatever. In our own country, this certainty against risk of loss is provided by the public funds, and therefore the interest which can be obtained on money, when invested in the funds, always affords a measure of the current rate of interest in this country.

It may be measured in England by the price of the public funds,

The price of funds varies slightly from day to day, and consequently the current rate of interest must also be subject to daily fluctuations. But although the current rate of interest is liable to these constant variations, yet through a long succession of years they are confined within very narrow limits. The English funds at the present time annually pay 3*l.* upon each 100*l.* of stock; when, therefore, Consols are at 100*l.*, the current rate of interest is three per cent. The lowest price which Consols have

which is nearly constant,

reached during the last twelve years has been 88*l.*; money invested in Consols at this price would pay an interest of about three and three-sevenths per cent.; and therefore, the current rate of interest, though subject to constant fluctuations, has not, when estimated by the price of funds, varied so much as half per cent. during twelve years.

In the language of every-day life, the current rate of interest is said to be determined, or rather to be denoted, by the price of money. If an individual, a company, or a foreign government, wished to obtain money from the loan market, they are obliged to pay a certain price for the use of it, in the same way as they would be if they purchased any other commodity; the price which is so paid is represented by the rate of interest which is promised by the borrowing party. Suppose the Russian Government cannot obtain a loan in our market under five per cent., whereas our own government can at the same time borrow money at three per cent., those who lend money to our government think that they incur no risk of loss, and therefore a remuneration of two per cent. is given for the risk which is supposed to be incurred when lending money to the Russian Government. With this remuneration for risk we are not concerned, when investigating the current rate of interest.

though different from the rate in other countries.

The rate of interest is subject to small oscillations about a point.

It is evident that there is some point which may be regarded as a position of stable equilibrium about which the current rate of interest in this country oscillates, for although varying from day to day, yet it always approximates to about three and a quarter per cent. This point, therefore, about which the oscillation takes place, may be regarded as the average or normal amount of the current rate of interest. Two distinct investigations must consequently be made. In the first place, the causes must be ascertained which determine the average current rate of interest; for the question may be naturally asked, Why should not the rate of interest fluctuate about two or about four per cent., instead of keeping with so much constancy to about three and a quarter per cent.? After having made this investigation, we shall then proceed to account for those small fluctuations in the rate of interest which are almost of daily occurrence. It would thus appear, adopting the language of the money market, and speaking of

the price of money instead of the rate of interest, that the laws which determine the price of money require the same mode of exposition as those which regulate the price of every other commodity. In the chapters on price it was explained, that the price of each commodity was subject to constant variations, which were caused by fluctuations in the demand and supply; but at the same time these variations always gravitate to a certain point, which is determined by the cost of producing the article, and which has been denominated by political economists, the natural price.

The current rate of interest depends upon the accumulation of capital and its relation to the demands of borrowers.

The first problem, therefore, which presents itself for solution is this, Why should the rate of interest in this country, upon the best security, be now always about three and a quarter per cent.? why should it not be either much more or much less than this—say, for instance, five per cent., or two per cent.? A century since, no money could be borrowed in this country, even by government, at less than five per cent.; whereas, in Holland, the government has frequently obtained loans at two per cent. The rate of interest is primarily determined by the capacity and desire the people of the country have to accumulate capital, compared with the demand for the capital which is so accumulated. Now, as previously remarked, the amount of wealth which is saved will vary *cæteris paribus* with the rate of interest which can be obtained. If five per cent. were the current rate instead of three per cent., there would be a greater inducement offered to every individual to save, and consequently a greater amount of capital would be saved. But on the other hand, the demand for capital varies inversely with the rate of interest; there will be a greater demand to borrow when money can be obtained at three per cent., than when it is necessary to give five per cent. If, therefore, the rate of interest were five per cent., there might be an amount of capital accumulated more than sufficient to meet the demands of those who wished to borrow; if, however, the rate of interest were only two per cent., the demand of those who wished to borrow might far exceed the amount of capital to be lent. An adjustment takes place similar to that which regulates the price of commodities, for the rate of interest must ultimately settle down to such a point as will equalise the demand to the supply; or, in

other words, the amount of capital accumulated must satisfy the demands of those who wish to borrow.

Explanation of the difference between rates of interest in different countries.

The principle just enunciated affords an explanation of the various rates of interest which prevail in different countries. The Dutch are more frugal in their habits and less expensive in their mode of living than we are. A less powerful inducement will therefore make them abstain from spending, and consequently two per cent. interest on capital may exert the same influence in causing the Dutch to accumulate as would be exerted upon the English by an interest on capital of three per cent. It therefore appears that the amount of capital accumulated, or, in other words, the current rate of interest which prevails through an average of years, partly depends on national character. In countries where the government is unsettled and property insecure, the rate of interest is certain to be high, because under such circumstances it would be impossible to find any very secure investment; consequently a portion of the interest received might always be considered as an equivalent for the risk of loss incurred; in the same way people always expect to obtain a high rate of interest from hazardous speculations. In India, a high rate of interest has always prevailed, for there property has been insecure, the people being constantly pillaged by the native rulers who tyrannised over them.

In Australia it is high because profits are high.

In a young prosperous colony such as Australia, the rate of interest is sure to be higher than in an old thickly peopled country like our own. In this case the high rate of interest is not to be accounted for, as in India, by a want of security with regard to property. It has already been remarked, with reference to Australia, that a generally high rate of profit is sure to prevail when there is a plentiful supply of fertile land. But if the average rate of profit which can be realised in trade is high, the rate of interest must necessarily be also high. If farmers in Australia on the average obtain a profit of twenty per cent., whereas farmers in England only obtain a profit of ten per cent., an Australian farmer will pay a much higher rate of interest for capital which he might wish to borrow with a view to extending his business, than an English farmer could possibly afford to pay. Every circumstance therefore in a country which tends to raise

the average rate of profit must also produce an increase in the rate of interest; on the other hand, the rate of interest will be lowered by every circumstance which tends to reduce the average rate of profit.

It will be affected by the cost of obtaining food.

It has been shown in a previous chapter* that the average rate of profit rises or falls as the cost of labour is increased or decreased; it has been also explained that the cost of labour is less or greater according as food is cheaper or dearer; hence, a bountiful supply of cheap food, whether imported from other countries, or obtained from our own soil by agricultural improvements, exerts a direct influence to raise the average rate of profit, and consequently to increase the average rate of interest. But in a country like our own, the rapid increase of population tends to make food become more expensive, and therefore the question, whether the general rate of profit, and consequently the average rate of interest, will decline as population advances, must be determined by considering whether agricultural improvements and foreign importations of food will suffice to meet the demands of a larger population without increasing the expense of obtaining food.

The price of property often depends upon the current rate of interest.

The price of many kinds of property directly depends upon the average rate of interest. Suppose from any circumstance such as the cheapening of food, or from the opening up of new and eligible investments for capital, that the rate of interest should rise throughout England, say from three to four per cent.; a corresponding decline must take place in the price of all such securities as the funds, railway debentures, and other investments, the interest upon which is fixed. The price of railway, mining, and other shares, would also decline; for the price of these shares is now so regulated by the general competition in the money market, that the dividends paid upon these shares must be sufficient, not only to return the interest given by investments which are perfectly secure, but, in addition to this, an adequate equivalent for the risk incurred. The price therefore of such shares must decline, if the rate of interest increases. The price of land would also be affected by either a

* Chap. v. Book II.

rise or fall in the general rate of interest. In our own country, land is considered as secure an investment as Consols. There are many advantages associated with the ownership of land which are not enjoyed by a fund-holder; the possession of land gives social position, and political influence, and also affords an opportunity for enjoying the pleasures of a country life. Money invested in land does not return so large an interest as if it were invested in the funds, for the advantages just enumerated are considered to afford a compensation for the smaller interest received. If, therefore, the general rate of interest should rise, the price of Consols would decline, and the price of land would also decline, because land would be expected to pay a higher rate of interest than before.

The price of land will generally fall as the rate of interest rises,

When it is said that the price of land will decline with a rise in the rate of interest, it must not be supposed that land necessarily diminishes in value as the rate of interest advances. The particular influence which is exerted on the price of land by a rise in the rate of interest may be understood from the following simple example:—Let it be supposed that money invested in land ought to return the same interest as money invested in the funds; we may consider this interest to be at the present time three per cent. A landed estate, therefore, the net income from which was 3000*l.* a year would sell for 100,000*l.* But the same estate, if the net annual returns from it continued to be 3000*l.*, would only sell for 60,000*l.* if the rate of interest should advance from three to five per cent., and if people still expected to obtain the current rate of interest from money invested in land. Upon this hypothesis the price of this estate and all other landed property would decline forty per cent. if the rate of interest advanced from three to five per cent. It must, however, be borne in mind, that the causes which affect the average current rate of interest may also affect the returns to landed property, or, in other words, the rent of land. The conclusion that the price of landed property would decline forty per cent. if the rate of interest advances from three to five per cent. is based upon the assumption that the rent of land remains unchanged; the current rate of interest, in fact, simply determines the number of years' purchase which land will realise. It

may, however, be remarked, that most of the circumstances which produce a rise in the rate of interest will usually decrease the rent of land; thus, the rate of interest is raised by a diminution in the cost of labour; cheap food decreases the cost of labour, but when food is cheap, agricultural produce is also cheap, and farmers cannot pay so high a rent for the use of land. Again, if the rise in the rate of interest is not accompanied by any change in the price of agricultural produce, the farmer's profits will be the same as they were before; he will not, however, be satisfied with the same profits, because the average rate of profit throughout the country will rise if the rate of interest is increased, and his rent must consequently be reduced. It therefore appears that a rise in the rate of interest will generally reduce the price of land in two distinct ways; in the first place, as the rate of interest advances, the number of years' purchase which land will realise diminishes; in the second place, the causes which produce a rise in the rate of interest generally exert an influence to decrease the rent of land.

and for two distinct reasons.

A remark may here be made to meet a difficulty which may suggest itself to some of our readers. It may be asked, How can there be, with the keen competition of capital which distinguishes this commercial age, such a difference in the current rate of interest as that between England and Holland? It might be thought that Dutchmen would place the same confidence in our funds as they would in their own government securities, and that consequently capital would be sent from Holland to be invested in our funds, instead of being employed there at a lower rate of interest. If the Dutch did this on a very large scale, there would cease to be any marked difference in the rate of interest prevailing in the two countries. But however active the competition of labour and capital may be, however keen and desirous traders may be to realise the largest profits, and labourers to secure the highest wages, yet the people of each community, more or less, restrict the range of competition to their own country. The prospect of very slightly higher wages would tempt our more intelligent workmen from London to Scotland; but a far larger inducement must be offered to workmen in order to induce them to undertake a shorter

Causes which tend to keep up different rates of interest in different countries.

journey: to cross the Channel and to settle in France. As long, therefore, as these feelings continue, very different rates of wages may prevail in different countries. In a similar manner, although there is no doubt that capital passes more freely than labour from one country to another, yet the people of each country naturally feel more confidence in their own government than is felt by the people of other nations. Hence they are willing to accept a smaller rate of interest from their government than would satisfy foreign investors. It is evident, therefore, that although capital is largely invested in foreign countries, yet people so highly appreciate the advantage of having their capital invested in their own country, that very different rates of interest may prevail in two neighbouring nations.

Confidence felt by each people in their own government.

We have now remarked upon the chief causes which determine the average rate of interest which prevails in different countries; it is now necessary to explain those temporary variations in the rate of interest which are indicated by daily fluctuations in the price of funds, or by frequent alterations in the rate of discount. It has been stated, that the price of funds has not varied more than twelve per cent. during many years, consequently there is not more than about three-eighths per cent. difference in the interest which the funds pay when at their maximum, and when at their minimum price. But alterations in the rate of interest at different times would appear to be much greater, if they are estimated by fluctuations in the rate of discount. The rate of discount very frequently varies as much as one per cent. in the course of a week, and during a commercial crisis it has in a few months advanced from four to ten per cent. The rate at which the Bank of England discounts bills is termed the bank rate of discount, and this regulates the general rate of discount throughout the country. The bank could of course have no power to control the rate of discount, unless it carefully followed the wants of the money market; for if the bank rate of discount was higher than the rate at which other establishments could afford to discount bills, no bills would be taken to the bank to be discounted. If, on the other hand, the bank should discount bills at lower rates than other establishments,

Daily fluctuations in the rate of discount.

Bank of England rate of discount.

every bill would be taken to the bank, and the bank would be virtually resigning a large amount of profit. The bank rate of discount is usually fixed each Thursday, at the weekly meeting of the governors, and unless something very extraordinary occurs, it is rarely altered during the week. The bank rate of discount also regulates the amount of interest which can be temporarily obtained upon money; for joint-stock banks, such as the London and Westminster, allow interest one per cent. less than the bank rate of discount upon all sums which are deposited with them exceeding 500*l.* The interest upon deposits, for instance, would be nine per cent., when in a commercial panic the bank rate of discount was ten per cent.

Why the funds do not vary more rapidly.

It may seem extraordinary that there should not have been a greater fall in the funds and other such securities, when bankers would allow interest at the rate of nine per cent. Why, it may be said, should any one have kept their money in funds or railway shares, which were only paying three or four per cent., when bankers would give nine per cent. interest? It must, however, be remembered, that every one knows that the rate of discount would only remain for a very limited time at ten per cent.; it would rapidly, perhaps suddenly, return to its former amount; as the crisis subsides, the price of all securities would improve, and then those who sold their funds or shares to enjoy a temporary high rate of interest, would be obliged to repurchase them at advanced prices.

Rate of discount depends upon the amount of money in the market at a given time.

The frequent variations in the rate of discount are not due to any permanent causes, but rather depend on the amount of money floating in the loan market, compared with the amount required to support the various advances made, and the various engagements undertaken upon credit. The rate of discount would immediately rise if any event should occur which would cause an increased demand for specie. Suppose, for an example, that a prospect of war with China should induce our merchants to believe that we might for a time be shut out from commercial intercourse with that country; it so happens that a large proportion of the tea and silk we obtain from China is purchased by specie. If, therefore, there was a rumour of war with China, our merchants would at once send out large amounts of specie to China, for the purpose of

purchasing tea and silk. These merchants would obtain this money by advances made to them on credit. If they had bills in their possession not yet due, they would immediately get them discounted; hence the demand for discount, or, in other words, the demand for specie, will be temporarily increased, and the rate of discount and the rate of interest will both rise. Any circumstance which causes credit to be restricted will at once produce an advance in the rate of discount; for a restriction of credit means, that people are more anxious to be paid in the form of money. There will, therefore, be a greater anxiety shown to convert all such instruments of credit as bills of exchange into money; the demand for money will increase, and the rate of discount necessarily advance.

Summary of the results arrived at.

If, therefore, we summarise the results of this chapter, it may be stated, that the average rate of interest which prevails in any period depends upon the amount of capital existing in a country, compared with the various other circumstances which have been enumerated as affecting the economical condition of a nation. But those temporary variations in the rate of interest which are marked by almost daily fluctuations in the price of Consols, and in the rate of discount, are not determined by changes in the demand and supply of capital, in all the various forms in which it ministers to the production of wealth. These variations depend on the demand and supply of capital in one particular form, namely, money; for it has been shown that a rise in the rate of discount is caused by an increased demand for ready money, usually resulting from a contraction of credit.

CHAPTER XIII.

THE TENDENCY OF PROFITS TO FALL AS A NATION ADVANCES.

IT has been incidentally remarked in the last and several other chapters of this work, that a high rate of profit is sure to prevail in young colonies which possess an abundant supply of fertile land. Moreover, the history of every progressive nation shows that the current rate of interest has gradually declined; it would therefore seem, that an advance in population and wealth is sure to be accompanied by a fall in the general rate of profit.

The explanation of the different rates of profit which prevail in the various stages of a nation's progress, suggests questions of as much practical and scientific interest as any that are discussed in political economy. It is somewhat singular, too, that these particular questions have perplexed many of the most eminent writers on this science; for instance, Adam Smith failed to give a correct solution of the problem here presented. All his remarks on the subject seem infected with the fallacy that low prices produce a reduction in the rate of profit.

High or low prices do not imply a high or low rate of profit.

General high or low prices indicate nothing with regard to the average rate of profit. High prices simply show that money has a small purchasing power; on the other hand, low prices show that money has a large purchasing power. If, from the discovery of very rich gold mines, the cost of obtaining gold should be greatly reduced, gold might then decline in value one half; if this should be so the price of every commodity would be doubled. It would not however follow, that such a great rise in general prices would be accompanied by even the slightest alteration in the average of profit. In order to

prove this, let us enquire in what manner the position of a manufacturer would be affected by such a change in the value of gold as that just supposed. If general prices were doubled, the manufacturer would be enabled to obtain double the price for his goods; but then it must not be forgotten, that the money cost of producing these goods would also be doubled, for he would be obliged to pay double the price for his machinery, and for the raw material. His labourers' wages must also be doubled, because now 5*l.* would only have the same power of purchasing commodities as 50*s.* had before. It is therefore manifest, that a general rise or fall in prices is solely caused by an alteration in the value of the precious metals, and, consequently, can have no effect in determining the average rate of profit.

The rate of profit is primarily determined by the ratio in which produce is divided.

In order that there should be no obscurity upon this subject, let us again impress upon our readers, that the rate of profit is primarily determined by the ratio in which any wealth which is produced is distributed between the capitalists and the labourers, who have contributed to its production. Unless, therefore, the amount of the wealth itself is increased, the share allotted to the capitalists can only be augmented by diminishing the share appropriated to the labourers. If, for instance, the employer's share is one third, the labourer's share will be two thirds, and if the employer's profits should be increased, and his share should become one half, the labourers' wages must be diminished, for their share would be one half instead of two thirds. This proposition, though apparently so simple, is fundamental, and cannot be too carefully borne in mind by the reader.

The connection which, in certain cases, exists between high prices and high profits explained.

Adam Smith was probably induced to suppose that low profits were produced by low prices by misinterpreting certain phenomena of frequent occurrence. When any particular branch of industry is extremely prosperous the prices prevailing in it rapidly advance and an exceptionally high rate of profit prevails. On the other hand when any particular branch of trade is depressed, prices decline and profits are reduced. The connection which thus appears to exist in certain cases between high or low prices and high or low profits can be readily explained. Activity of trade is due to an augmentation in the demand

for any particular commodity; on the other hand an industry becomes depressed when the supply of the commodities produced exceeds the demand for them. In the first place let it be assumed that a new market is suddenly opened for some kind of manufactures, such for instance, as woollen cloth. An increased quantity of cloth cannot perhaps be at once produced to meet this new demand; those who are anxious to purchase cloth compete with each other for its possession; the price of cloth consequently rises and the manufacturers' profits are increased. This advance in profits can only be temporary, for the exceptionally high profits will attract capital to the trade. The supply of commodities will be increased, and thus the new demand will become satisfied. Prices will decline and the profit realised in the branch of industry will be gradually restored to the natural rate.

In order to investigate the opposite case, let it be assumed that there is a sudden falling off in the demand for cotton goods. The supply will consequently, for a time, exceed the demand. The competition of those who are anxious to sell will reduce prices, and profits will decline. People are naturally anxious to contract their business if it ceases to be remunerative. The manufacture of cotton goods will be gradually contracted. The supply will be diminished; prices will again rise, and profits will be restored to their natural rate. It is therefore evident that the prevalence of high or low profits in some particular branch of trade simply indicates that for a time either an exceptionally high or an exceptionally low rate of profit is realised. But a rise or a fall in general prices is solely due to an alteration in the value, or in other words, in the purchasing power of gold, and denotes nothing whatever with regard to the average rate of profits.

The effective desire to accumulate wealth increases as a country progresses.

It has already been found convenient to employ the expression, the effective desire to accumulate wealth. This effective desire is sure to increase with the social progress of a nation. The less civilised people are, the less care will they have for the future; the more prudent people are, the more desirous will they be to save wealth, and thus accumulate capital. It is only the most backward tribes who do not make some provision for the future, and there is no doubt that a great amount of wealth

would be saved, even if no profit could be obtained on capital. People would set aside something, in order either to make a provision for children, or to be prepared against old age, and such casualties as illness. But the great bulk of the capital of the country is saved for the purpose of obtaining a profit upon its investment. It therefore follows, that the amount of profit which is thus obtained primarily determines the amount of capital accumulated. It is, however, impossible to tell the exact ratio in which the amount of capital accumulated would increase or decrease with a rise or fall in the average rate of profit; all that can be said is this, that the wealth saved will be greatly diminished, if the current rate of interest on the best security should fall from three to one per cent. On the other hand, the accumulation of capital will be most powerfully stimulated, if new and eligible investments for capital should be opened up. It must, however, not be concluded, that if at some future day our government should be able to borrow money at one per cent., there would then be less capital accumulated than now. The reverse would assuredly be the case, because such a fall in the rate of interest would prove that the effective desire of the people to accumulate wealth had been much increased; in fact, their prudence would have become so great, that then one per cent. interest would offer the same inducement to save as three per cent. does now.

Connection between the amount of wealth saved and the rate of profit.

It would therefore appear, that the amount of wealth which is saved in a country at any particular time is partly the cause and partly the effect of the average rate of profit, for the greater the amount of the capital which is accumulated, the less *cæteris paribus* will be the average rate of profit; whereas, on the other hand, the less the average rate of profit, the smaller *cæteris paribus* will be the amount of capital accumulated. An adjustment takes place between these different influences; for it is evident, in the first place, that a certain average rate of profit results from a particular amount of accumulation, and secondly, the amount which is accumulated determines the average rate of profit. In each stage, therefore, of a nation's social and economical condition there must prevail a certain average rate of profit, this rate being adapted to the particular amount of capital which will be accumu-

lated by the prospect of being able to obtain the rate of profit which is supposed to prevail. We are now in a position to investigate the general tendency of profits to rise or fall as a nation advances, for this can be conveniently done by considering the principal circumstances which accompany a nation's economical progress, and by tracing the effect of these circumstances upon the average rate of profit. When a nation is advancing, capital and population are sure both to increase. If the population increases faster than the circulating capital of a country, there will be a smaller proportionate wage-fund to distribute amongst the labourers, and their wages must inevitably decline. If this decline in wages is not accompanied by any diminution in the industrial efficiency of the labourer, a smaller sum of money will be paid for the same amount of labour, and it would therefore appear that profits must consequently be increased. If, on the other hand, the circulating capital increases faster than the population, wages must advance, and the profits of capital will be diminished. It might, therefore, seem that an increase of population tends to augment the rate of profit, and yet such a conclusion is apparently contradicted by experience; for in young colonies, whose fertile land is only partly occupied, a high average rate of profit always prevails; moreover, it may be observed, that profits decline as a country becomes more thickly peopled. All the phenomena just described may be very simply explained.

When a country is progressing capital and population both increase.

It has already been frequently affirmed, that in the absence of any counteracting circumstances, food requires more labour and capital to produce it, and, therefore, becomes more expensive as the wants of an increasing population render it necessary to resort to less productive land. If food could be obtained in indefinitely large quantities without any increased cost, every advance in the population of the country would exert a direct influence to raise the average rate of profit. In every old country the remuneration received by the worst-paid labourers may be regarded as the minimum wages, or, in other words, the least wages which will suffice to support the labourer. As an example of this, our own agricultural labourers may be cited, for every one who is acquainted with their con-

Food constantly requires more labour to produce it as a country progresses,

dition must know that their wages could not be reduced, without depriving them of many of the first necessaries of life; such a deprivation would diminish their manual strength, and decrease the efficiency of their labour. The wages of the agricultural labourer in this country are barely sufficient at the present time to provide him and his family with the cheapest clothing, and the simplest food. Let any one take the average earnings of an agricultural labourer in the west of England, and let an estimate be formed of this labourer's expenditure, and it will be found that it is impossible for an agricultural labourer to eat meat more than once a week; he is moreover powerless to make any provision against old age or sickness. Let us enquire what will take place if population increases, and food becomes more expensive. It may be assumed in order to illustrate the argument, that bread rises in price fifty per cent.; such an assumption is by no means imaginary, for within the last few years there has been in many districts in England a greater rise than this in the price of meat and dairy produce. Labourers would endure much suffering if they obtained less bread than they are now accustomed to consume; if, therefore, bread rose in price fifty per cent., it would be impossible for agricultural labourers to live on their present wages; their wages therefore must be raised, or, in other words, the cost of labour increases, if no counteracting circumstances intervene to prevent food becoming more expensive as population advances. Hence, in a country like England, which is advancing in population and wealth, two agencies are constantly exerting an influence to reduce profits.

and thus the cost of labour increases.

Hence two causes combine to lower profits,

increased cost of labour,

and increased saving.

In the first place, an increased population tends to make food more expensive, but if food becomes more expensive, the cost of labour is augmented, and this cannot happen without diminishing profits. In the second place, as a nation advances in wealth, the people become more prudent, a smaller return on capital will induce them to save, and consequently, a greater capital is accumulated in proportion to the profits which can be realised upon it. There can however be no doubt that many circumstances come into operation which act more or less powerfully to retard this fall in profits. Thus it should be borne in mind, that only a portion of the capital accumulated in England

The effect of these causes is

is invested in the country itself, either as circulating or as fixed capital. Our capital is freely invested in other countries, we subscribe to foreign loans, and by our aid many most important railways and other works have been carried out in every quarter of the world. As an example it may be stated, that of the 15,000,000*l.* which has been spent upon the Grand Trunk Railway in Canada, nearly the entire amount was subscribed by English shareholders. Every year the field for the investment of capital in foreign countries is rapidly extending, and it will continue to extend, as the barriers of prejudice are broken down between different nations, and as security of property is spread over a wider area. Now all this capital which is accumulated, but is not invested in our own country, produces no effect, either upon the average rate of profit, or upon the wages paid to our labourers; and as the field for the investment in foreign countries may become of almost boundless entent, it is quite possible to conceive, that capital may continue to increase, even with greater rapidity than it has during the past few years, without causing any fall in the rate of profit. If, however, this outlet for our savings should be at any time partially closed, a great stream of capital would be turned back upon England; the circulating capital of the country would consequently be greatly augmented; the wages paid to the labourers, and therefore the cost of their labour, would be greatly increased, and the rate of profit would rapidly decline.

retarded by the exportation of capital.

Observations have now been made upon the extent to which a fall in the rate of profit resulting from a constantly increasing accumulation of capital may be counteracted by the investment of capital in foreign countries. We will next speak of the principal circumstances which counteract the decline in profits, which will be sure to accompany an increase in population, unless supplies of cheap food can be obtained. Agricultural improvements, and the importation of food from countries less thickly peopled than our own, are the chief circumstances which enable additional supplies of food to be obtained without an increase in its cost. In the first place, with regard to agricultural improvements, there can be no doubt that superior methods of culture have largely augmented the

The decline of profits is also checked by agricultural improvements.

average yield from each acre of land in this country, and this larger produce has been obtained without a greater proportionate expenditure of labour and capital. Two very prominent improvements need only be mentioned; for it is well known that much comparatively unproductive land has been made to produce large crops of corn, by the cultivation of the turnip, and by the use of artificial manures. Improved implements are every year introducing greater efficiency and economy into agriculture. If we were compelled to obtain from our own soil all the additional food which an increasing population would require, food would greatly rise in price, the cost of labour would be increased, and profits would decline.

The 'stationary state'

Those political economists who consider that a decline in the rate of profit must of necessity accompany an advance in population and wealth, frequently affirm, that material progress has very definite limits, and that the progress of each nation must, necessarily, sooner or later cease. It is, for instance, maintained, that if the rate of profit continues to decline, the returns to capital will, after a time, be so small, that no adequate inducement will be any longer held out for increased accumulation. Under these circumstances, capital will not be further increased, the rate of profit will have reached its lowest limit, and the nation then will arrive at what is called a stationary state. A stationary state is of course a possible contingency, and there can be no doubt that England might soon be in this condition if those causes which have been enumerated, as tending to keep up the rate of profit, ceased to act for any length of time. But, with regard to almost all countries, the stationary state was more likely to be attained fifty years since than it is now. During the last century, the Dutch frequently lent money to their government at two per cent.; this indicates a much lower rate of profit than has prevailed in any European country for many years past. Holland in the last century had no doubt very closely approached the stationary state. But the general condition of Europe was then so disturbed, that comparatively little capital was sent from one country to another for the purpose of being invested; hence, nearly all the capital which was accumulated by the thrifty Dutch had to be invested in their own country, and the result of

seems to be less probable now than formerly.

this was that the rate of profit which prevailed was so low, that no sufficient inducement was offered to increase the amount of capital accumulated.

The conversion of circulating into fixed capital tends to keep up the rate of profit.

There are many other modes in which capital is absorbed, besides those which we have enumerated; for instance, the conversion of circulating into fixed capital tends to keep up the average rate of profit. During the first years of the great railway extension in this country, the average rate of interest undoubtedly rose; there was a great demand for capital, and the tempting speculations which presented themselves induced many to withdraw capital from business, and embark it in railway undertakings. But when, by the conversion of circulating into fixed capital, the wage fund of the country is diminished, the cost of labour is decreased, and an influence is thus exerted to raise the rate of profit. Such diminution in the wage fund is by no means hypothetical; the wages of labourers have often been for a time decreased by the sudden conversion of a large amount of wealth into fixed capital, either in the form of railways, machinery, &c. The injury to the labourers, it is true, is only temporary, because machinery and useful public works greatly augment the productive resources of the country, and rapidly create a larger fund, from which future capital may be accumulated.

A commercial crisis may tend to keep it up by the destruction of capital.

Some people have considered that the average rate of profit is kept up or is prevented from falling by the destruction of capital, which always takes place in those commercial panics which seem to recur with periodic regularity. The phenomena which accompany these crises give colour to this opinion. In consequence of the increasing accumulation of capital the money market is at length said to become glutted with capital seeking for investment; loans are freely offered, and the rate of interest declines. In such a state of things any undertaking which offers a prospect of unusual gain is eagerly supported; a speculative feeling is thus engendered, the excitement quickly blinds men's judgment, all kinds of fictitious schemes are brought forward, and capital is recklessly subscribed to carry out unprofitable undertakings. Directly the mania begins to subside the losses of individuals become revealed, and it is discovered that immense sums of

capital have been wasted; the surplus capital which was floating in the money market has been destroyed, capital becomes scarcer and the rate of interest rises. Hence, no doubt, a commercial crisis produces a considerable effect in the rate of profit by absorbing, or rather by destroying capital; but it is to be doubted whether the influence thus exerted is so powerful as that which is produced by those other circumstances already described as sustaining the average rate of profit.

The high rate of profit which prevails in Australia explained.

The general remarks which have been made in this chapter may be illustrated by explaining the high average rate of profit which prevails in a young colony such as Australia. The material condition of a country in the position of Australia is characterised by an abundance of fertile land and by a scarcity of capital and labour. The economy, therefore, of an old country like England affords a direct contrast; for in England fertile land is scarce, and labour and capital are both abundant. When fertile land is plentiful, food is sure to be cheap, and this will be especially true with regard to those kinds of food which require little labour for their production. For instance, immense flocks of sheep have been fed on the pastures of Australia entirely for the sake of their tallow and wool. The meat of these sheep was of no value whatever, until the gold discoveries brought a sudden accession of population; for previously there were not enough people in Australia to consume even a small portion of the mutton that was annually killed. Wheat, however, was not relatively so cheap as mutton, because the cultivation of wheat requires considerable capital and labour. Labour was, however, scarce, and the implements of agriculture were expensive. Although labour and capital may be both scarce in such a country as Australia, yet it is evident that the returns to this labour and capital, if applied to cultivate the soil, must be extremely great when it is remembered that in such a country even the most fertile land can be obtained at a merely nominal price.

Reason why in a young country agriculture and mining are more

The industry of a young colony is sure to be almost entirely confined to agriculture, for the great abundance of fertile land at her command gives her superior advantages in comparison with older countries. On the other hand, it is impossible for a young colony to compete suc-

cessfully in manufacturing industry; she does not possess the appliances which manufacturers require, the machinery would have to be imported, and labour would be more expensive. Our operatives would not, of course, emigrate to Australia unless they expected to obtain higher wages. The same considerations apply in a somewhat modified degree to mining industry; the gold mining of Australia is an exception to this, because comparatively few countries produce gold, and therefore Australia has little competition. But in the case of such minerals as copper, which are produced both in England and Australia, it is impossible for Australian copper mines to compete against English copper mines, unless the former are far richer than the latter. Labour and machinery are so expensive in Australia, and the cost of bringing the ore from the mine to the coast is so great, that many a copper mine which is unprofitable in Australia would be a source of enormous wealth if it could be transferred to England.

flourishing than manufactures.

We may, therefore, conclude that the industry of a colony is employed in agriculture and in supplying those wants of the people for which provision cannot be made by importing commodities from other countries. For besides agricultural labourers, there must, in a young colony, be bricklayers and carpenters to build houses, and all the various retail dealers and others connected with them who minister to the daily domestic requirements of life. Since, therefore, agriculture is the staple industry of a colony, it is evident that the average rate of profit which prevails will be regulated by the profit which can be obtained upon agriculture. When there is abundance of fertile land, every one can easily become a farmer; hence capital would not long continue to be employed in house building, or in retail trades, if a larger profit could be realised by investing it in agriculture. In order therefore to explain the high rate of profit which prevails in a colony, it will be necessary to show that the profits on agriculture are larger in a colony than in a thickly-peopled country. Where fertile land is so abundant, it is of course only necessary to cultivate the most productive soils. Consequently labour and capital, when applied to agriculture, will be far more productive in a colony than in a country like our own.

The rate of profit which prevails there will be regulated by the rate of profit obtained by agriculture.

It may perhaps, however, be said, that we have land far more fertile than any which is tilled in Australia. This, no doubt, is true, but the English farmer has to pay a heavy rent for the use of land, and he does not on the average realise greater profits than the farmer who cultivates worse land, but who pays a smaller rent. England's population is so great, that there is a demand for all the produce which can be raised from her cultivated soil; high rents therefore must prevail. These rents are an essential part of an English farmer's expense; he pays his rent for the use of an efficient agent of production, just in the same way as if he were compelled to purchase a useful machine. The farmer in a colony has, speaking comparatively, to pay no rent; he is saved this heavy expense, and there consequently remains a greater amount of produce to be distributed between the farmer and the labourer. Wages and profits are, for these reasons, almost invariably higher in a colony where fertile land is abundant, than in an older country where the growth of population has made land scarce.

CHAPTER XIV.

OF OVER-PRODUCTION OR EXCESS OF SUPPLY.

ALL political economists who preceded the late Mr. James Mill and Mr. Ricardo, and many who have succeeded them, seem to anticipate a general over-production of commodities as a possible or even probable contingency. Dr. Chalmers and Mr. Malthus went so far as to impress upon all, the duty of exercising a moral restraint with regard to the accumulation of capital; for if this is not done, they feared that wealth would only be created to be wasted, and that it would be impossible to consume a great portion of the commodities produced. Sismondi was actually opposed to the use of machinery, because he believed that if the production of wealth was so much facilitated there would inevitably ensue a general over-production of all commodities.

Supposed danger of over-production.

The fundamental error involved in these opinions would probably never have been supported by the three great writers just enumerated if they had clearly conceived the purport of the language they employed. Let us therefore, as a preliminary process, assign a distinct meaning to the word 'over-production.' Now, over-production may exist in two very different ways: in the first place, a greater quantity of commodities may be produced than can be sold at remunerative prices. In this case there may be no deficiency in the power of consumption. Everything which is produced can be readily consumed, but those who have a demand are not willing to pay such a price as will remunerate those who produced the commodities. It is difficult, from the language employed, to determine whether this is the kind of over-production which is intended by Chalmers, Mal-

Over-production may have two meanings.

thus, and Sismondi. It is, perhaps, more probable that they conceived a second kind of over-production, differing very essentially from this. It is possible, as an hypothesis, to suppose that a greater quantity of all commodities may be produced than people really want. In the course of this chapter it will be proved that such an over-production has never taken place in the past and is never likely to occur in the future.

The evils which may result from over-production in the sense of low profits

With regard to the first kind of over-production, it has been stated when considering the laws of value and price that some particular commodity is frequently produced in excess; the price at which it sells will then cease to be remunerative, and the profits of those who produce the commodity are consequently reduced. These low profits discourage the production of a particular commodity; in this way its supply is diminished, the demand is once more equalised to the supply, and prices are again made remunerative to the producer. When these low profits temporarily prevail in any branch of industry in consequence of over-production, it is said that the particular trade is dull or depressed. It is quite possible that such dullness and depression caused in the manner above described may exist in every trade; if such a phenomenon should really occur, it would no doubt have been considered by the above-mentioned writers to denote general over-production. In one sense, it would be over-production; but the word has a double meaning, and by the aid of this ambiguity the most mischievous economic fallacies are speciously propounded and readily assented to. The method adopted is the following—Certain phenomena are described, and are admitted to prove the existence of general over-production in one of its significations. When, therefore, the possibility of over-production is proved, numerous events are shown to result from over-production in its other signification, and therefore the possibility that these events may really occur is regarded as proved, because the existence of over-production in its other sense has been admitted. This method of reasoning affords a basis for an indefinite number of fallacies. If it be admitted that there is over-production, so far as it is represented by low profits, yet it can be proved that there never has been, and there never will be, over-production in the

are adduced to prove the possibility of a production of more wealth than can be consumed.

sense that more commodities are produced than people will consume.

Case of over-production of a single commodity such as cotton.

Let us consider the case of a market being over-supplied with some particular commodity. If the American civil war had not occurred, the cotton manufacture of Lancashire would, no doubt, quickly have presented an example of what is commonly called over-production. During the years 1859 and 1860, the Eastern demand for cotton goods was extremely active; prices ruled high, and unusually large profits were realised. Every manufacturer was consequently stimulated to produce on as large a scale as he possibly could. All the existing mills were worked to their utmost, and new mills were rapidly erected. The extra demand which caused these large profits would no doubt soon have been fully supplied. Manufacturers, if we may judge from past experience, would not have sufficiently diminished their production as the additional demand for cotton goods became gradually satisfied; the market therefore would almost certainly have become over-supplied, and the unusual activity which had prevailed in this branch of industry would infallibly have been succeeded by low profits and general dullness of trade. In fact, activity and depression always seem to succeed each other in the cotton trade in regular cycles.

The cotton goods would not be wasted, but the profits of manufacturers would be temporarily lowered.

Although the market may be thus over-supplied with cotton goods, no one can suppose that these cotton goods will be wasted; there would be no difficulty whatever in selling the goods if they were only offered at a sufficiently low price. These low prices may be very disastrous to the manufacturer, but what he loses, is gained, or is saved by those who purchase cotton goods; there can therefore be no waste—all that happens is simply that the producers of certain commodities miscalculate the extent of the demand when these commodities are sold at a particular price. If the demand is over-estimated, the producers will realise smaller profits than they anticipated. But such an excess of supply can only be temporary, because low profits will check production. The demand for a commodity is determined by its price; raise the price of a commodity, and the quantity of that commodity which will be purchased is at once diminished. But, on the other hand, by sufficiently lowering the price, the quantity of a commodity

which will be purchased may be indefinitely increased. There is a certain average rate of profit which prevails in a country at any particular time. Unless manufacturers and traders hope, on the average of years, to realise a certain rate of profit on their capital, they will not continue their business; they would rather withdraw their capital as speedily as possible, and invest it in other undertakings. A constant tendency is therefore in operation which so regulates the price of commodities that the ordinary rate of profit is, on the average of years, given to each class of producers. If the price of any commodity is more than sufficient to do this, the production of the commodity is stimulated, the supply is increased, and the price of the commodity must fall in order to make the demand meet the increased supply. But whenever the price of any commodity falls so low as to cause a particular branch of industry to be comparatively unremunerative, there exists what is commonly called over-production; such over-production can only be temporary, for the low prices will exert an influence to check the supply of the commodity, and the price of the commodity will soon be raised, so that the producers of it again receive the ordinary rate of profit.

Low profits may tempt to a misapplication of capital, but not to a superfluous production of wealth.

It therefore appears that, however great may be the accumulation of capital, commodities are sure not to be produced so as to be wasted; there will be always persons ready to consume the commodities which are produced, if the price at which they are sold is sufficiently low. Consequently the accumulation of capital, as was pointed out in the last chapter, may reduce profits, but never causes a superfluous production of wealth. Capital may be misapplied and wasted, and when a very low rate of profit prevails, there is always a great temptation, as is proved by every commercial crisis, to squander capital upon useless and unproductive schemes. People become dissatisfied with the small profits of legitimate trade, and therefore recklessly embark in any scheme that affords a prospect of large gain. But such a misapplication of capital resulting in a waste of wealth, is a very different thing from wealth being produced in such superfluity that it must be wasted for want of consumers. It is true, that the investment of capital in unproductive schemes is often prompted

by the prevalence of a low rate of profit. The capital however need not be so invested, for it could still be employed productively; if it were so employed, the supply of commodities would be farther increased, and profits would again decline. This decline in profits would be disadvantageous to the producers; the consumers of the commodities would be benefited, and the wealth of the nation would be increased to the full extent of this additional production.

The extreme case of over-production assumed in the chapter on Capital is imaginary.

When discussing the subject of capital the most extreme case of over-production was assumed; for it was supposed that capital went on accumulating so fast, and the production of commodities was so largely increased, that at length the labourers were able to obtain everything which they required. It may be said, that if in such a state of things capitalists should continue to accumulate, and labourers continue to labour, additional wealth would be produced, which no one would have any desire to consume; but such a supposition tacitly assumes, that men have an uncontrollable desire to labour, and that in fact they labour for labour's sake. This is entirely contrary to the experience of human nature: men labour in order to satisfy their wants, and to provide themselves with the enjoyments of life. Labourers would gladly shorten their hours of toil, if, in consequence of an increased accumulation of capital, the remuneration of labour should ever be so largely augmented that their wages should become sufficient to supply them with all the necessaries and enjoyments of life. It therefore appears that, upon the most extreme hypothesis, there cannot be over-production, in the sense conceived by Malthus, Chalmers, and Sismondi. The fallacies they propounded on this subject were no doubt due to a misinterpretation of the phenomena connected with the low profits which prevail in a trade when there has been an over-production of some particular commodity. Mr. J. S. Mill has aptly remarked, that any 'difference of opinion on the subject of over-production, involves radically different conceptions of political economy, especially in its practical aspect. On the one view we have only to consider how a sufficient production may be combined with the best possible distribution; but on the other, there is a third thing to be con-

sidered—how a market can be created for produce, or how production can be limited to the capabilities of the market. Besides, a theory so essentially self-contradictory cannot intrude itself without carrying confusion into the very heart of the subject, and making it impossible even to conceive with any distinctness many of the more complicated economical workings of society.'

CHAPTER XV.

ON THE RECENT GOLD DISCOVERIES.

The effects of recent large gold discoveries are still uncertain.

THE unprecedentedly large supplies of gold which have been obtained from Australia and California, during the last few years, have already produced many important results, and if these supplies continue, a still more powerful influence will no doubt be exerted upon the commercial condition of every country. When the intelligence that rich deposits of gold were spread over Australia and California was confirmed by the repeated arrival of ships with many thousand ounces on board, the commercial mind of Europe became greatly excited. The wildest speculations were indulged in; financiers of great reputation confidently predicted, that gold would be so rapidly depreciated in value, that it would in a few years be as cheap as silver. These predictions have not been realised, for although the yield of gold has continued far in excess of the original amount at which it was estimated, yet it is now a disputed point, whether up to the present time the value of gold has suffered any depreciation. There seems, however, to be a preponderance of evidence in favour of the opinion that there has been a slight depreciation in the value of gold.

Only a small part of the Australian and Californian gold has been used in the English currency.

The Australian gold fields were discovered about the year 1850, and those of California two years earlier. Before that time, almost all the gold used in Europe was obtained from South America and the Ural Mountains. It has been calculated, that the annual yield from all these sources combined did not exceed 6,000,000*l.*; and of this amount about 4,000,000*l.* was each year sent to England. But since the year 1850, the average yield of gold in Australia has been 10,000,000*l.*, and the gold mines of

California have been scarcely less productive. Almost all the Australian gold has been sent to this country, and the average annual amount which we have obtained from California has been at least 4,000,000*l.* It therefore appears that Australia and California annually send to this country an amount of gold exceeding by three times the amount previously obtained from all sources combined. The question, therefore, is at once suggested, What has England done with this additional gold? There can be no doubt that only a small portion of it has been coined, for the purpose of being employed as money in this country*. Since, therefore, only a small portion of the additional gold which has been imported into this country has been converted into currency, we will proceed to enquire in what manner the remainder has been appropriated.

Purposes to which the gold may have been applied.

The gold which England imports must be applied to one or more of the three following purposes:—

1st. It may be employed in arts and manufactures.

2nd. It may be coined into money at the Mint.

3rd. It may be transmitted to foreign countries to pay for various commodities purchased from them in the ordinary transactions of commerce.

The amount used in arts and manufactures probably varies little.

The extreme difficulty has already been alluded to of even approximately estimating the amount of gold annually used in arts and manufactures. Gold is however devoted to a great variety of purposes, and Mr. Jacob, a high authority, supposed thirty years ago that 2,000,000*l.* of gold was annually absorbed in arts and manufactures. The amount of gold which is so employed has no doubt since then greatly increased. Mr. Jacob is generally considered to have made an exaggerated estimate. The difference of opinion which exists upon this point does not

* We are able to form no correct estimate of the amount of gold coin added to our currency by examining the Mint returns. The statistics of the Mint show the amount of gold, silver, and copper money annually coined; money is, however, constantly withdrawn from circulation for the purpose of being re-coined, and a considerable portion of the precious metals sent from this country is exported, not in the form of bullion, but in specie. A glance at the Mint returns at once proves the impossibility of forming from them any correct opinion as to the mode in which the precious metals which we annually import are employed. Thus in 1847, the year before the gold discoveries were made, the gold coined at our Mint amounted to 5,000,000*l.*; in 1853 the amount rose to 11,000,000*l.*; whereas it declined in 1858 to 1,200,000*l.*

however in the least degree militate against the certainty of the conclusions about to be established. For whatever be the amount of gold which is used in arts and manufactures, it is nevertheless evident that the amount thus absorbed, though it may gradually increase, cannot vary greatly from year to year. When, therefore, the annual yield of gold was nearly quadrupled, by the Australian and California discoveries, only a very small portion of this additional gold could in the first instance be absorbed, by an increased demand for gold for industrial purposes. Unless it is assumed that gold is cheapened, there can be no reason why the amount of gold employed in arts and manufactures should be much greater in 1852 than it was in 1848, and yet the yield of gold increased during this interval more than three-fold. Hence it may be said, with sufficient exactness, that almost the whole of the additional gold obtained from Australia and California must have been either coined at our Mint or re-exported to foreign countries.

A larger circulation is required by an increased population in order that prices may not vary.

It will be remembered, that in a previous chapter an explanation was given of the connection between the quantity of money in circulation, and the general prices of commodities, and it was then proved, that prices rise or fall in exact proportion to the increase or decrease in the quantity of money in circulation, if it is assumed that whilst this increase takes place, nothing occurs to affect the general economy of the nation. This principle may not appear to be sufficiently clear, because we have employed the ambiguous expression, 'no change in the economy of the nation'; let us therefore explain the exact nature of the qualification thus introduced. It is quite evident, that if the population of a country should greatly increase, a larger quantity of money would be required to be kept in circulation, for there would be more buying and selling. If a nation had 30,000,000*l.* of money in circulation, when its population was 10,000,000, it would seem that 45,000,000*l.* of money ought to be in circulation when its population had increased to 15,000,000. If, however, no additional amount of money were brought into circulation as the population increased, and if, at the same time, no substitutes for money were provided, the same amount of money would have to do a greater amount of

buying and selling than it did before, or, in other words, a smaller quantity of money will be exchanged in each transaction of buying and selling. The consequence of this must be a general decline in the price of commodities.

The rise of prices consequent upon an increased circulation,

On the other hand, if an additional quantity of money should be brought into circulation far in excess of the increase in the wealth or population of the country, a greater quantity of money would be exchanged in each transaction of buying and selling, and general prices would rise. This rise in price could only be prevented, by employing the extra money in transactions which were before carried on by some of the substitutes for money which credit provides.

might be checked if the gold supplanted some of the substitutes for money,

It is not however probable, that the rise in general prices which would occur under the circumstances supposed would be thus prevented, although such a contingency is theoretically possible. A description has already been given of the various substitutes for money which are now used in every mercantile country, and it has been stated that an increasing proportion of the business of the country is conducted by cheques, and bills of exchange. If some such substitutes for money as these did not exist, money must be employed in a great number of transactions, where now it is completely dispensed with. It has therefore been explained that it is theoretically possible that an additional quantity of money might be brought into circulation, without exerting any effect on prices, if some of the existing substitutes for money were displaced; but it was at the same time remarked,

but this is very improbable.

that such a contingency was extremely improbable, because in a progressive mercantile country like our own, the substitutes for money, instead of being displaced, are each year more extensively used. For instance, a very short time has elapsed since many traders, such as farmers, paid and received everything in money. A farmer would pay his rent in money, and sell his wheat and sheep for money; but now all the large farmers in England have banking accounts, and they use cheques for every payment which exceeds a few pounds. Hence, although the quantity and the value of the produce which is annually bought and sold by the English farmers has greatly increased during the last few years, yet a much smaller quantity of money is probably kept in circulation in the agricultural

districts, because cheques are now employed in so many transactions, instead of money.

Hence it is difficult to determine the effect produced on prices by an increase or decrease of the circulation.

These remarks have been made in order to show the extreme difficulty of ascertaining the effect exerted on general prices by an increase or decrease in the quantity of money in circulation. If, for instance, the population and wealth of the country increase, and if more money is not brought into circulation, one of two things must occur: either general prices must decline, or some of the substitutes for money must be employed in transactions which were previously carried on by money. If, on the other hand, an additional quantity of money is brought into circulation when there is no corresponding increase in the wealth and population of the country, then, again, one of two things must occur: either the value of gold must be depreciated and general prices will rise, or money must be used in transactions where it was not previously employed. The first of these contingencies, namely, a general rise in prices, would be almost sure to occur, because in progressive mercantile countries, such as our own, there is no probability that money will be used in transactions where it was not previously employed, since every year a greater amount of business is carried on by means of the various substitutes for money. Hence, from the remarks which have just been made, the following question is suggested for solution, in order to decide what effect the recent gold discoveries have exerted on general prices in this country.

We cannot discover whether the increase of gold has been more than proportional to the increased number of transactions.

The question is this: Has the additional gold which has been coined and circulated as money in this country been in excess of the amount required for the increase which has occurred during the last twelve years in the wealth and population of the country? If this question is answered in the affirmative, general prices must undoubtedly have risen. But the solution of such a question depends on facts which can only be approximately ascertained; for it is, in the first place, impossible to calculate with even any pretence to accuracy, what is the amount of wealth which is annually bought and sold in this country; and, in the second place, if this amount could be contrasted with what it was twelve years since, it would be further necessary to ascertain how much of this

wealth was actually exchanged for money, in order to be able to decide what is the amount of money required to be in circulation at any particular time, so as to preserve uniformity in general prices. It would therefore seem that the method of investigation just indicated does not enable us to know with precision whether general prices have risen or fallen, during any particular epoch.

Nor can we directly compare the prices of commodities, because those prices are affected by many other causes, and the prices of some may fall whilst others rise.

But it may perhaps be said, If it is desired to know anything concerning a general rise or fall in prices, why not adopt a very obvious and simple method, and compare the prices of commodities now with what they were a few years since? The method however, though obvious and simple, does not supply so conclusive a test as may be supposed, as will be seen if we try its efficiency by employing it to discover what has been the effect on prices of the recent gold discoveries. Directly such a comparison is attempted, it will be found that there has been neither a general rise nor a general fall in prices. The price of some commodities has increased, whereas the price of some other commodities has decreased to a corresponding extent. For instance, during the last ten or twelve years, the price of meat and dairy produce has decidedly risen, whereas the price of manufactured goods has fallen. But, as has been previously stated, the rise in the price of meat may be fairly explained without implying that the value of gold has been depreciated by the recent discoveries, since the increase in the quantity of meat which is required to meet the wants of a larger population is quite sufficient to account for a rise in the price of meat. Again, improvements in machinery and in the processes of manufacture have cheapened the cost of producing various commodities, and their price has consequently declined. It therefore appears that a rise in the price of some articles and a fall in the price of others may be due to some special causes, and may occur independently of any general decrease or increase in the value of gold. It is therefore natural to expect that a comparison of general prices now with what they were ten or twelve years since will not enable us to decide with certainty whether or not the value of gold has been depreciated. Undoubtedly the depreciation cannot as yet have been very great, because opinions still differ as to whether a certain income, say

100*l.* per annum, will now purchase as many of the enjoyments and necessaries of life as it did before the new gold was discovered.

As stated at the commencement of the chapter, we incline to the opinion that there has been a slight depreciation in the value of gold. This conclusion is chiefly based upon a most elaborate investigation by Professor Jevons. He has compared the average prices of many hundreds of commodities during five years since the gold discoveries, with their prices previous to 1848. He has, with the utmost care, made allowance for the influence which might have been exerted upon the price of any particular commodity by causes independent of a change in the value of gold. The result of his investigations would seem to prove that there has been a rise in general prices amounting from 10 to 15 per cent.

It may seem that there is yet another method of investigation, which will conclusively decide the question as to whether the value of gold has, or has not, been depreciated. Thus it may be said, that in a previous chapter of this work, the value of gold as well as of all other mineral produce was stated to be regulated by laws similar to those which determine the value of agricultural produce. If the value, or price of agricultural produce declines, the worst land in cultivation will cease to return any profit, and will consequently be thrown out of tillage. In the same way, if the value of mineral produce declines, the profits resulting from mining industry will be diminished, and many of the least productive mines will cease to be worked. It may therefore be thought that many of the least productive gold mines must during the last few years have been relinquished if the value of gold has been depreciated by the discoveries in Australia and California. It does not, however, appear that gold mines in other parts of the world have been thus relinquished, because the yield of gold from South America and other sources of supply is as great now as it was previous to the discovery of the Australian gold fields.

It might be supposed that, if gold had fallen in value, mines would have gone out of work.

The evidence, however, which is derived from the consideration just mentioned, is not as conclusive as at first sight it may appear to be. We throw out this suggestion in order to caution our readers, because it must be borne

This is not conclusive, because mining profits are un-

steady and partake of the nature of a lottery.

in mind that mining industry, and especially gold mining, is far more speculative and uncertain than agriculture. A decline in the price of agricultural produce almost immediately affects the rent which farmers will consent to pay. Each farmer can very approximately calculate the profit which he shall be able to realise, and he will refuse to rent his farm, unless he considers that he shall be able to obtain an adequate return for his labour and his capital. No such calculation can, however, be made with regard to the profits which a mine is likely to yield. It often happens that the discovery of a new lode may in a few months vastly increase the profits and value of a mine. Even in our own country it has frequently happened that a copper or tin mine has in a short time increased in value a hundred fold. Mining therefore resembles a lottery; those consequently who are engaged in mining industry do not, or cannot, calculate the profits which are likely to be realised. The chance of obtaining a great prize is the real motive which prompts mining enterprise. Thus, again and again has it been stated that the copper and tin mines of Cornwall do not, on the aggregate, return a profit of one per cent. on the capital which is expended upon them. This striking statistical fact exerts comparatively little influence; for people will continue to embark their capital in this unremunerative industry, as long as they observe that a mine here and there has been so successful that 100*l.* originally invested in it would realise an annual income of many hundreds a year. People in a similar way are attracted to the gold fields by the intelligence of great and successful 'finds,' and they seldom calculate what is the average profit realised by each person employed upon a gold field. It therefore appears that the supply of gold may not immediately be much affected by a slight depreciation in its value; a continuance of the depreciation must, however, after a time diminish the supply. Hence a depreciation in the value of gold is spontaneously retarded, because a depreciation in value exerts a tendency to decrease the supply of gold, and a diminution in the supply at the same time exerts a tendency to increase its value.

They are worked when the average profits are extremely low.

The large supplies of

The fact that the large additional supplies of gold have, as yet, caused no marked depreciation in its value, enables

us to account for a most important result which has been undoubtedly produced by these discoveries. It has already been stated that any sudden variation in the value of the substance which is chosen as money must prove most disastrous to a mercantile nation. Our readers will clearly perceive this, if they reflect for a moment upon some of the consequences which would ensue, if the value of gold should, in a few years, increase fifty per cent. Every fixed money payment would then be increased fifty per cent., since the prices of all commodities would be reduced fifty per cent.; and therefore 150 sacks of wheat could only sell for the same amount of money as 100 sacks sold for before. Those, therefore, who had to pay fixed money rents, would have their rents virtually raised fifty per cent., because fifty per cent. more produce must be sold to obtain the requisite amount of money to pay the rent. Again, the burden of the national debt would be increased fifty per cent.; because, if the interest on the debt was 30,000,000*l.*, this amount of money would represent the same quantity of wealth as 45,000,000*l.* did before the value of gold was depreciated. The whole monetary arrangements of the country would, in fact, be thrown into a state of confusion, since those who had fixed money payments to receive would be enriched as much as those would be impoverished who had to make these payments. Now, there can be no doubt that the value of gold would have been greatly increased, and the disastrous consequence just mentioned would have consequently ensued, if England had not obtained since the year 1850 a large additional supply of gold. It is a remarkable coincidence, that the time when the gold discoveries were made was the commencement of a new era in the commerce of this country; the Navigation Laws were then repealed, and this measure completed the great free-trade policy of Sir Robert Peel. Our commerce and trade, released from the trammels of protective duties, at once showed a most extraordinary development. Our exports in twelve years, from 1848-60, advanced from 60,000,000*l.* to 135,000,000*l.*, and our imports exhibit a corresponding increase. In 1847 we imported about 500,000,000 lbs. of cotton, and 55,000,000 lbs. of tea, and in 1856 we imported more than 1,000,000,000 lbs. of cotton, and nearly 90,000,000 lbs. of

gold received have prevented a disarrangement of the finances of the country.

This is owing to the fact that the gold discoveries coincided with the commencement of a new era in commerce.

tea. This expansion of our trade and commerce was as sudden as it was great; for it is an instructive fact, that the trade of this country seemed to be in a stationary state for several years previous to the introduction of free trade. Our exports and imports had, since the conclusion of the war in 1815, shown a progressive increase; but about the year 1838, until the establishment of free trade, they remained almost stationary. It is quite evident that such a sudden development of trade and commerce would require a larger amount of money to be brought into circulation; for, as the wealth of the country increased, a greater amount of wealth would be each year bought and sold for money, more money would also be required because the population was more numerous. Again, more money was wanted in order to pay the wages of the labourers; for our exports could not advance from 60,000,000*l.* to 135,000,000*l.* without the wage-fund of the country being enormously increased. It therefore appears, that the sudden development of our trade and commerce about the year 1850, created a demand for a greater quantity of money to be brought into circulation.

If the gold had not been discovered, the additional demand for money must have raised prices.

If no new supplies of gold had been forthcoming, this additional demand for gold must have inevitably caused a sudden rise in its value. The extent of this rise might have been very considerable, and those consequences would have ensued which have been already described. The increase in the value of gold which would have occurred, can be best understood by reflecting on the large quantities of gold which have been poured into this country without producing any marked depreciation in its value. It therefore may be regarded as conclusively proved that the gold discoveries were made at a most opportune time, and that they averted a most serious evil; for, if we had been left to the old sources of supply for obtaining gold, England's commerce could not have expanded as it has during the last few years without a large and sudden fall in general prices.

A large quantity of gold has been re-exported to

We have next to investigate the manner in which the large quantity of gold has been employed which England has re-exported to foreign countries. An examination of the Board of Trade returns at once suggests an answer to

India and China.

this enquiry; for it will be perceived that, since the year 1850, there has been an extraordinary export of the precious metals to India and China. The average annual amount thus exported has certainly been not less than 12,000,000*l.*, and yet a few years previously to this, the amount sent was comparatively insignificant. The causes which have induced this large export of the precious metals to the East are well worthy of explanation. The increase in the trade of this country which has just been described, is exhibited in a very striking manner by the quantity of tea and silk which we import from China. In 1847 we purchased only 55,000,000 lbs. of tea from China, whereas we now import nearly 100,000,000 lbs. This increased consumption of tea which has taken place since the introduction of free trade satisfactorily proves the benefits which have been derived from that policy; for there is no luxury so much prized by our labouring classes as tea, and therefore the consumption of tea could not have been nearly doubled unless our labouring poor had become far more prosperous. About the year 1850, another circumstance happened which powerfully affected our Chinese trade, for then the silk crop in Europe first began to show signs of failure. China was at once resorted to, and since that time large quantities of raw silk have been imported from that country. In the year 1855 we imported more than 4,000,000 lbs. of silk from China, whereas a short time previously the importation had been insignificant. These figures are sufficient to demonstrate the enormous increase which has occurred during the last few years in the money value of our imports from China. But our exports to that country do not advance in a corresponding degree; the Chinese possess all the prejudices which result from an isolation of 2000 years. Although the industry of this people is so remarkable that they seem capable of supplying Europe with any quantity of tea and silk which may be required, yet the Chinese will not accept European commodities in exchange for their produce. For great as is the increase of our imports from China, yet our exports to that country were less in 1855 than they were in 1844. During the three years 1844-5-6, our exports to China averaged rather more than 2,000,000*l.* In 1853 they declined to 1,700,000*l.*, and in the next two years to

China has refused to accept other commodities than the precious metals.

1,000,000*l.* The result of this is, that what is popularly called the balance of trade is largely against England and in favour of China. In order to adjust this balance of trade, we are compelled, as has been already stated, annually to send many million pounds sterling of the precious metals to China.

In India gold and silver have been sent out in consequence of the great outlay of English capital.

Again, with regard to India, the large public works which have been carried out in that country have rendered it necessary that a considerable amount of the precious metals should annually be sent there from Europe. It has for instance been calculated that, in seven years 43,000,000*l.* of English capital has been subscribed for Indian railways; a portion of this was of course spent in England for plant and materials, but a large portion of the amount was sent in the form of precious metals to India, for the purpose of paying those employed in the construction of the railways. The causes which have been here stated, and others of minor importance, which might be enumerated, are quite sufficient to explain why, during the last few years, an amount of the precious metals equivalent, on the average, to 12,000,000*l.* has been annually exported to India and China.

Although it is chiefly silver which has been sent, the place filled by the silver in Europe has to be filled up by gold.

It may, however, be urged, that these facts do not prove that much of the Australian and Californian gold has been absorbed by India and China; because it is silver, and not gold, which has been chiefly sent to those countries. As far, however, as the absorption of gold is concerned, it makes little difference whether it is this metal, or silver, which is sent to the East; for the large quantities of silver which have been exported to the East, must have been principally obtained from the silver coinage of various countries; in fact, it is well known, that the silver currency of France has supplied a considerable portion of the silver which has been thus exported. A few years ago, a very large number of silver five-franc pieces were in circulation in France; a large amount of this particular kind of money had been hoarded and kept concealed by the peasantry of remote districts. The demand for silver to be sent to the East has caused a very large number of these five-franc pieces to be bought up, for the purpose of being melted down. Their place in the French currency has been occupied by gold coin; and therefore,

although silver is sent to the East, yet it may be considered that gold is really absorbed, if this silver, which is thus sent, has to be replaced by gold of a corresponding value.

The future consumption of the precious metals will depend upon the amount sent to the East.

Although the greater part of the new supplies of gold which have not been retained by England, have been either exported to the East, or have replaced the silver which has been exported to the same destination, yet some of the Australian and Californian gold has been absorbed by other countries. For instance, these countries themselves, as well as many others, have been rapidly advancing in population and wealth, and their growing trade consequently requires a greater amount of money to be brought into circulation. But as long as 12,000,000*l.* of the precious metals are annually sent to the East, we must regard this as the principal source for the absorption of the new supplies of gold. Hence it would appear, that the future position of our trade with India and China must mainly determine the influence which is yet destined to be exerted on prices by the recent gold discoveries. The present position of our trade with China is so anomalous, that it would be hazardous to make any prediction regarding it. Who, for instance, can tell how long the balance of trade will be against our own country, and in favour of China? The Chinese are a remarkably shrewd people, and they are ever ready to avail themselves of any chance of making a pecuniary gain. What, then, is more likely than that they may some day recognise the advantage of exchanging their tea and silk, not for the precious metals, but for some commodities of European manufacture? The loss which the Chinese suffer from the present method of carrying on trade, is very apparent; for the precious metals are not intrinsically useful, and 1,000,000*l.* expended in England would purchase commodities of far greater use and value, than could be purchased by the same amount of money, if it was expended in China. If the Chinese should become large importers of European products, Europe would no longer be obliged to send the precious metals to that country, in order to adjust the balance of trade. There would consequently cease to be any demand for a considerable portion of the 12,000,000*l.* of gold and silver which is now annually sent from England to the East.

If the flow of the precious metals to the East were checked, prices would soon rise in England.

This great stream of the precious metals being turned back upon England, would no doubt cause the value of gold to be rapidly depreciated, and the consequence would be a general rise in prices. We do not predict this as a certain, but simply as a possible, result; it ought not, however, to be forgotten, that it is a contingency which may at any time occur in the course of a few years, and we therefore think that people would be prudent, if they made some preparations to meet it. The practical importance of taking such precautions has not, however, as yet been recognised in this country; for instance, fathers who wish to leave a comfortable provision for unmarried daughters, frequently settle upon them a certain fixed money income, arising from an investment in the funds, and generally the money is settled upon them in such a way that the investment cannot be changed. Reasons have, however, been stated which show, that such a provision is not so free from risk as it is intended to be. For if a certain contingency should occur (such, for instance, as an alteration in the present condition of the Eastern trade, or the discovery of still richer deposits of the precious metals), the value of these metals may be so depreciated that an income of 200*l.* per annum would be worth no more than 100*l.* is now. After duly weighing all these facts, it can scarcely be denied that a considerable depreciation in the future value of gold is, at least, a possible contingency. The probability of such an occurrence will be variously estimated; but it will be prudent to assume that such a depreciation may occur when arranging transactions which involve the continuance of fixed money payments for a considerable period.

Means by which the evils caused by a depreciation of gold in particular cases may be avoided.

We will give an example to show how this possible depreciation in the value of gold might be guarded against. Suppose a person wished permanently to invest 10,000*l.* in railway property; this sum invested in debentures would give him a uniform income of about 400*l.* a year. If, however, the value of gold became depreciated twenty-five per cent., he would virtually lose twenty-five per cent. of his income, although its nominal amount would remain unaltered. Let it, however, be assumed, that the 10,000*l.* was expended not in debentures, but in stock. A debenture only gives a man a claim upon a railway com-

pany for a certain annual money payment, but the possessor of railway stock is part owner of the railway itself; if, therefore, the value of gold is depreciated, the money value of the railway will, *cæteris paribus*, increase in a corresponding degree; and, therefore, the money value of the stock which is possessed by the individual, will also be increased to the same extent. Hence, property thus invested is secure against any loss arising from a depreciation in the value of gold. An income derived from land is also similarly secured against any loss arising from this cause; but all securities, such as our own funds, foreign stocks, &c., in which a fixed rate of interest is paid, diminish in value in exact proportion to the depreciation in the value of gold. It must not, however, be supposed, that this depreciation would be shown by a reduction in the price of the securities; their price would not be in any way affected. If gold were depreciated one half, 3*l.* would be worth no more than 1*l.* 10*s.* is now, and a fundholder's property would consequently be depreciated one half, although the price of funds might remain unaltered. It is moreover evident, that the tax-payers would be relieved of one half the burden of the national debt, if the fundholders lost one half their income by a depreciation in the value of gold.

The fundholders would have no claim for compensation on the government.

Some have considered, that if the fundholders' property should be depreciated in the manner just described, they would have a legitimate claim for compensation from the nation. Such a claim might be urged with apparent reason, if gold had been depreciated in value so suddenly that it was impossible for any one to take timely warning. The claim, however, under present circumstances, would be entirely indefensible; for the possibility of a depreciation in the value of gold has been discussed and predicted for the last twenty years. Some authorities affirm, that the depreciation has already commenced; whereas other authorities of equal reputation as confidently assert, that the time may be still indefinitely distant, when the value of gold will become depreciated. Hence every investor has ample time to take warning, and no one ought for one moment to be encouraged to believe that he would have the slightest claim for compensation, if his property should become depreciated by a fall in the value of gold.

BOOK III. CH. XV.

Influence of the gold discoveries upon the exporting countries.

We have now considered the influence that has been, and is yet likely to be, exerted on prices, by the recent gold discoveries; it therefore only remains to describe the effects which these discoveries have produced upon the countries in which they have been made. We will, for the sake of convenience, chiefly confine our attention to a description of the economic progress of Australia; for at the time of the gold discoveries, the commercial condition of Australia so much resembled that of California, that the remarks made with regard to the one country, will equally apply to the other.

Australia was previously rich in land, but poor in labour and capital.

It has been previously stated, that of the three requisites of production—viz. land, labour, and capital—a young colony such as Australia possesses the first in an eminent degree; for long previous to the gold discoveries, the great natural resources of Australia were known, but it was impossible, in consequence of a deficiency in the supply of labour, to make these resources adequately productive. Her pastures, for instance, grazed enormous flocks of sheep; the population of the colony was, however, so small that these sheep were worthless except for their wool. An abundance of fertile land could be purchased at almost a nominal price; but previously to 1848, comparatively very few emigrants went to Australia; consequently two of the requisites of production—namely, capital and labour—were wanting, and the progress of the colony was extremely slow. But directly it became known that rich deposits of gold had been discovered, thousands of emigrants were immediately attracted to Australia. This additional supply of labour exerted no immediate effect upon the development of the other resources of the country; in fact, her general industry was, in the first instance, seriously interfered with, for a great proportion of the labourers of the colony were attracted to the gold fields. Shepherds left their flocks, and almost every class of the community for a time relinquished their ordinary avocations. The whole economy of the nation was quickly thrown into a state of confusion; it was, however, soon discovered, that the average profits realised in the gold fields were not so great as the profits which could be obtained from many other employments. A considerable amount of labour was therefore rapidly withdrawn from the gold diggings, and returned to

The gold discoveries attracted labour and capital,

agriculture and other industrial pursuits. There was, moreover, a large population at the gold fields, whose wants had to be supplied. This new demand so increased the wealth of the colony, that meat which before could only be sold at a nominal price, soon realised 3*d.* and 4*d.* a pound in the Melbourne market. Wealth was rapidly made, and a large amount of capital was saved. The high rate of profit which prevailed in the country, attracted capital from England; Australia in this way suddenly obtained the two remaining requisites of production—namely, capital, and labour—and she consequently advanced in commercial prosperity with wonderful rapidity.

although the rate of profit in gold mining was not exceptionally high.

It therefore appears that the gold discoveries have exerted a special influence in promoting the industrial progress of Australia. We have, however, been anxious to explain, that the benefit thus conferred is not due to the realisation of an exceptionally high rate of profit in gold-digging. No doubt some of the Australian gold-diggers have made great gains; but, when the average earnings are estimated, it is found, that gold-digging is not more remunerative than other branches of industry. For instance, when agricultural wages were 40*s.* or 50*s.* a week in Australia, it was calculated that the average earnings of those engaged in many of the gold-fields did not exceed 35*s.* a week. But the discovery of gold confers a special benefit upon a colony; because no other circumstance exerts so powerful an influence in attracting emigrants; the reason of this is very obvious.

Gold mining partakes of the nature of a lottery and is therefore very attractive,

In the first place it may be remarked, that in a hazardous speculation such as gold-digging, the instances of great success are brought into far greater prominence than the corresponding cases of failure. The same feelings which induce people eagerly to enter a lottery, attract them to an employment which offers chances of great gain. It must also be borne in mind, that gold-digging is not impeded by those obstacles which, in a young colony, retard the progress of almost every other kind of industry. Land cannot, for instance, be profitably cultivated in a young colony, until roads have been made, and until there is a town population in the colony itself to purchase the produce. Manufacturing industry cannot be carried on with success, because labour is so dear. Moreover, all mining

operations except gold-digging, require a great expenditure of labour and capital. Expensive machinery has to be constructed, and the produce raised is bulky, and therefore the cost of conveying it to market is extremely great. Australia is, no doubt, very rich in other minerals besides gold; many of her copper mines are far more productive than those which yield large profits in Cornwall; but one single fact will show the difficulty of working an Australian mine with advantage. The price charged for bringing the ore from an Australian mine called the North Rhine Copper Mine, to port, is 5*l.* a ton, whereas the average price which the smelters pay for English copper ore does not exceed this amount.

whilst it requires little capital.

Gold mining has, however, to contend with no such difficulties. The Australian gold-digger requires little capital except a few simple tools, and sufficient money to pay his passage out; and therefore, in embarking in this industry, he risks little more than a certain amount of time and labour. It therefore need not be a matter of surprise, that the gold discoveries immediately attracted thousands of emigrants to Australia; the labour which she required was thus supplied, and her future progress was consequently insured.

BOOK IV.

TAXATION.

CHAPTER I.

ON THE GENERAL PRINCIPLES OF TAXATION.

Taxation is generally discussed under the head of 'the Influence of the Government.' Reasons for restricting this branch of the enquiry.

IT is customary for writers on political economy to discuss taxation as a part of the separate division of the science which has been termed by Mr. Mill, 'the influence of government.' It is no doubt true, that almost every law which is enacted exerts, either directly or indirectly, some influence on the economy and wealth of the nation. It might therefore appear that every act of Parliament might be appropriately discussed in a treatise on political economy. But if such a course were adopted, the range of this science would be practically unlimited. It is therefore necessary that some restriction should be placed upon the scope of this part of our enquiry; a convenient boundary line will be drawn, if our investigations are confined to measures, the specific object of which is to obtain money, which the government either spends itself, or directs to be expended by others. It is manifest that such measures are included in the term taxation, meaning by the word, local as well as general taxation; for taxation has no other object in view except to obtain money. The taxes, when collected, may be devoted to any purposes which the government may direct; but a person is never made to pay a tax, in order that some subsidiary end may be attained.

Taxes may produce various effects, of which we only consider those which in-

As an example it may be mentioned, that a tax on spirits raises their price; the consumption of an intoxicating beverage is thus discouraged, and the tax may be therefore said to promote temperance. But anxious as the government may be to prevent drunkenness, the tax on spirits is imposed for the sole purpose of obtaining revenue. It is,

fluence the production, distribution, and exchange of wealth.

of course, fortunate if the tax effects another subsidiary object, and improves the morality of the people. But if the revenue which is raised by the spirit-duties should not be wanted, no one but a fanatic would think of retaining these duties merely for the purpose of discouraging drunkenness. Even if such a proposition were seriously entertained, it would involve considerations which would not belong to political economy, but to the general science of ethics. Political economy has simply to explain what will be the influence of any particular measure upon the production, the distribution, and the exchange of wealth; this science is trespassing upon the domains of other sciences, if it attempts to decide whether a particular measure may be right or wrong. We therefore think it advisable to avoid discussing, in a treatise on political economy, those acts of a government which are intended to effect some object which is not directly concerned, either with the production, the distribution, or the exchange of wealth, but which may, nevertheless, at the same time exert some indirect influence upon the general economy of the nation. Several advantages are obtained by adopting this course.

Governments are compelled to raise taxes.

It is evident that a government cannot possibly exist, unless it possesses a revenue; its laws, for instance, become a dead letter, unless the penalties which the law sanctions are enforced on those who disobey. The people who enforce these penalties, are servants of the State, and they therefore require some remuneration for the duties which they perform. Hence the State must possess a revenue, in order to pay its various agents and servants. This revenue may be obtained by rapine and pillage; but if such means are resorted to, the revenue is not raised by taxation; for taxation implies, that the right to levy a tax is given by law, and that the law not only enacts by what classes of the community the tax should be paid, but also specially states the penalty which any one incurs, if he refuses to pay the tax. The question, therefore, is at once suggested, Are there any principles which will enable us to decide whether any particular tax is just or unjust, defensible or indefensible? Adam Smith considered, that all the principles of taxation might be deduced from the four following rules, or precepts. These four rules, which

Are there any principles which will enable us to decide on their justice? Adam Smith's

have been termed canons of taxation, shall be described in Adam Smith's own words.

Canons of Taxation.

'1st. The subjects of every State ought to contribute to the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists, what is called the equality, or inequality of taxation.'

Taxes should be in proportion to the means of the taxed.

'2nd. The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence, and favours the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, as appears I believe from the experience of all nations, is not near so great an evil, as a very small degree of uncertainty.'

They should be certain.

'3d. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land, or of houses, payable at the same time at which such rents are usually paid, is levied at a time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy or not to buy as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.'

They should be levied at the time most convenient to the taxed.

'4th. Every tax ought to be so contributed as both to take out and keep out of the pockets of the people as little

They should take as little as

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possible beyond the amount which comes into the treasury.

as possible over and above what it brings into the public treasury of the State. A tax may either take, or keep out of the pockets of the people, a great deal more than it brings into the public treasury, in the four following ways. 1st. The levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. 2nd. It may divert a portion of the labour and capital of the community from a more to a less productive employment. 3rd. By the forfeitures and other penalties which those unfortunate individuals incur, who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have derived from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. 4th. By subjecting the people to the frequent visits, and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression.'

Summary of these four rules.

In order to assist the reader's recollection, these four rules or principles of taxation may be briefly described as follows:—

1st. Taxation should possess equality.

2nd. There should be no uncertainty with regard to the amount to be levied.

3rd. The tax should be levied at the most convenient time, and in the most convenient manner.

4th. The State ought to obtain as much as possible of the whole amount which is really levied from the tax-payer.

The truth of the last three is indisputable.

The importance of the last three of these four rules, after the remarks which have been made upon them by Adam Smith, will be so generally admitted, that it is unnecessary farther to dwell upon them; they will receive additional illustration when various special taxes are discussed. It is, however, necessary, that the first of these four principles should be clearly stated; we will therefore endeavour to explain what is really meant by equality of taxation, and we will also enquire as to the best mode of securing such equality.

Equality of taxation

Equality of taxation is one of those expressions which, although in constant popular use, cannot, without difficulty,

be accurately defined, Some people seem to think it sufficient to state, that equality of taxation is secured when every person in a community is taxed according to his means; but to tax a person according to his means, is an expression which does not convey a clearer conception than equality of taxation. At any rate, the precept that people should be taxed according to their means, would give the statesman as little assistance in framing a just system of taxation as if he were told to obey the maxim, that equality of taxation must be secured. Insuperable difficulties at once suggest themselves, if any attempt is made to decide whether one person's means are, or are not, equal to another's. A and B, we will suppose, are two landowners; each of them possessing a freehold estate worth 1000*l.* a year. A is a bachelor, and never intends to marry; B has ten children, besides a great number of other relations depending upon him. Unless the signification of words was severely strained, it could not be maintained that B's means were equal to those of A; and yet no system of taxation which has ever been proposed, would exempt B from a tax which A was bound to pay, simply on the ground that B had a large family, and A had no children. In fact, under every system of taxation which prevails in any country at the present time, B would pay a greater instead of a smaller amount in taxes than A; for B, having a larger establishment than A, would purchase a greater amount of the commodities which are taxed. If, for example, these two individuals lived in our own country, B, on account of his large family, would be sure to purchase more tea and sugar than A, and probably also, more beer, wine, and spirits; B would also require a larger house than A, and a greater amount of local taxation would consequently be levied upon him. It, therefore, appears, with regard to those taxes which are levied upon commodities, that no attempt can be made so to adjust them that each individual shall be taxed in proportion to his means. Consequently, if taxing an individual in proportion to his means is to be the test of equality of taxation, inequality seems to be inseparably associated with the great majority of taxes that are imposed.

is a term incapable of definition.

Difficulty of interpreting it when applied to married men and bachelors.

But it may, perhaps, be said, that if taxes on commodities exert upon different individuals such an unequal

The unequal pressure of taxes on commodities cannot be redressed by an income-tax.

amount of pressure as that which has been described, it then becomes all the more important, that equality of taxation should be restored by a proper adjustment of an income-tax. The income-tax will be subsequently considered; it is here only necessary to state, that no plan of levying the income-tax which has ever been proposed would have the slightest effect in causing the two individuals, A and B, above described, to be taxed according to their means. Although many have advocated the policy of levying a different rate of income-tax on various kinds of income, yet no one has ever even suggested that two incomes in every respect of the same kind should be differently taxed, because the one income belonged to a bachelor, and the other to a man with a large family. It must, therefore, be evident that equality of taxation cannot mean the taxing of people according to their means, because this is an end which it is useless even to attempt to attain.

Unsatisfactory nature of the theory that taxation should be proportionate to the amount of protection derived from the State.

There is another test of equality of taxation, which has been regarded by numerous writers as perfectly satisfactory. These writers affirm that the revenue of a government is employed in protecting the lives and properties of its subjects; consequently the amount which each individual contributes to the revenue ought to be proportioned to the benefit which he derives from the protection of the State. But if equality of taxation is to be secured in this manner, it would not only be necessary to tax the property which is protected, but it would also be necessary to impose a poll-tax upon every member of the community. The life of every individual is of some value to himself; therefore, in protecting person, a government confers the same benefit upon each member of the community. It would, however, be a manifest absurdity to propose such a poll-tax, and therefore this scheme for securing equality of taxation, though it has an air of plausibility about it, is scarcely worthy of serious consideration.

Adam Smith's expressions are indistinct, for they imply that taxation ought to be pro-

It does not appear at all certain that Adam Smith distinctly conceived a plan for deciding whether, in any particular case, equality of taxation is, or is not, secured. His language, when apparently clear, sometimes fails to convey a definite meaning. His words are these: 'The subjects of every State ought to contribute to the support of the government as nearly as possible in proportion to

their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.' Upon this fundamental principle, it is repeatedly said that every system of taxation ought to be based. Notwithstanding the deference due to such a high authority, we believe it will be found that, if the language employed by Adam Smith is closely analysed, his first principle of taxation is not only expressed in words which are obscure, but that it is almost useless for any purposes of practical application. It will be observed that Adam Smith, in the first place, affirms that the subjects of a State ought to contribute to the support of the government in proportion to their respective abilities; then he professes to make this statement of his principle more clear by enunciating it in different terms; for he explains that 'contributing to a government in proportion to a person's abilities,' is the same thing as 'contributing in proportion to the revenue which he enjoys under the protection of the State.' These two statements of the principle, if they have any precise signification, do not mean the same, but entirely different things.

portioned to revenue and also to ability to pay,

which are different and inconsistent tests.

Adam Smith apparently intends by the first statement of his principle, to give an implied assent to the opinion, that equality of taxation cannot be secured, if simply the income, or property of each individual is considered, without taking any notice of various other circumstances which may cause any particular tax to be really much more burdensome to one individual than to another, although they may possess equal incomes. Hence this question is at once suggested, What does Adam Smith wish to signify by the expression 'ability to pay'? Should 'ability to pay' be estimated by the amount of wealth which a man may possess? If so, a man whose income is only 50*l.* a year, ought to pay just half as much in taxation as a man whose income is 100*l.* a year. Without expressing an opinion as to the justice of such an arrangement, it is necessary to point out that different significations are sometimes attached to the expression 'ability to pay;' and Adam Smith does not definitely tell us which signification ought to be accepted. Some people have urged that, if an income of 50*l.* a year is only just sufficient to provide the possessor of it with the bare necessaries of life, then he who has such

Ability to pay should not be considered as proportionate to income,

an income cannot be said to have any 'ability to pay' a portion of it in taxation. Adam Smith probably did not make any allowance for such considerations as these; it may therefore be assumed that, in his opinion, a system of taxation would be perfectly equitable, if it could be so arranged that an individual whose income was 100*l.* a year, should contribute just twice as much to the revenue of the State as an individual whose income was only 50*l.* a year. This in all probability was his opinion, because he endeavours more fully to elucidate his principle by affirming that each individual ought to contribute in proportion to the amount of revenue which the State protects for him. But even admitting that this is the meaning of Adam Smith's principle, it may be asked, Does it provide any measure or standard of equality of taxation by means of which the justice of any particular tax might be ascertained? Let us test the practical utility of this principle, by applying it to our own fiscal system.

and provides no test of equality.

Taxation on commodities renders it impossible to tax according to ability to pay.

It has been previously affirmed that equality of taxation passes out of the legislator's control, if it is necessary to raise a revenue by taxing commodities. The amount which each individual contributes to a tax on commodities must be entirely regulated by the consumption of this commodity, and can, in no way, be apportioned to the ability of each individual to pay the tax. The inequality which, according to Adam Smith's definition, is thus introduced, cannot be remedied by an adjustment of that portion of the revenue which is raised by direct taxation. It may be a debateable question, whether an income derived from some temporary source, such as a profession, should be taxed at the same rate as an income which is derived from freehold land; but no one has ever thought of proposing, that two incomes of the same kind and the same amount should be differently rated, because other taxes may levy from the possessors of these two incomes amounts which are not proportioned to their respective abilities to contribute to the revenue of the State.

Hence Adam Smith's first rule is of no practical use as

These remarks have been made with the view of showing that Adam Smith's first rule is of no practical use, if it is applied to test the justice or injustice of any one particular tax; in fact, it is very important to establish this point, because many errors with regard to

taxation have been based upon this first rule of Adam Smith's. Examples of such errors are frequently met with in the various proposals which are made for the adjustment of the income-tax. Thus it is often affirmed that an income which is derived from a temporary source, ought not to be taxed at the same rate as an income arising from a permanent source. It is argued that the owner of a temporary income has not the same ability to pay the tax as the possessor of a permanent income, since the former has to set aside a larger portion of his income to provide against future contingencies than the latter. Such an argument involves a fallacy; it would no doubt be perfectly fair to apply Adam Smith's first rule to one particular tax, such as the income-tax, if it could also be applied to every other tax which is imposed. It has, however, been shown that such a general application of this rule is impossible; it does not therefore follow that the inequality which is necessarily associated with some taxes, would be any way diminished by attempting so to arrange one particular tax, that each individual should contribute to it in proportion to his ability to pay it.

a test of the justice of a tax.

In order to illustrate this remark, let it be assumed that the whole revenue of the State is obtained by a 20 per cent. income-tax, and by a high duty on some article of general consumption, such as tea. Let it also be farther assumed, that there are two individuals, A and B, whose incomes are respectively 500*l.* and 1000*l.* a year. If A and B have the same number of children, they will probably purchase nearly the same quantity of tea, and, therefore, they will contribute, as far as the tea-duty is concerned, nearly the same amount to the revenue, although the ability of one to pay the duty is twice as great as that of the other. This inequality of taxation would manifestly remain untouched, if the income-tax were levied in strict accordance with Adam Smith's first rule, and if each of these two individuals were consequently made to contribute to the income-tax in proportion to his ability to pay. In order to remove the inequality which is connected with the tea-duty, it would be necessary to make some kind of compensation to the possessor of the smaller income, and therefore a smaller rate of income-

Exemplification of the uselessness of the rule as applied to a system of taxation.

tax ought to be levied from the possessor of the income of 500*l.* a year, because he contributes a larger proportion of his income to the tea-duty, than is contributed by the owner of the income of 1000*l.* We readily admit that such an attempt to adjust the burden of taxation could never produce perfect equality; but it is only by adopting such a course, that even an approximation towards equality of taxation can be attained. It therefore appears that, although Adam Smith's first rule of taxation ought not, under any existing revenue system, to be applied to any special tax, yet the principle is no doubt true, when expressed in the following manner:—The aggregate amount which each individual pays in taxes, ought to be in proportion to his ability to contribute to the revenue of the State.

True statement of the principle.

Equality of taxation may be approximately obtained.

In the remarks which we shall now proceed to make upon various special taxes, it will be shown that the equality of taxation which this principle is intended to define, can never be perfectly secured. It may, however, be approximately obtained by giving to one class, with regard to some taxes, certain advantages which will, in a rough way, provide a compensation for disadvantages which the same class may suffer from inequalities of taxation, perhaps inseparably associated with other portions of the national revenue.

CHAPTER II.

ON THE INCOME-TAX.

Ought temporary incomes to be taxed as highly as permanent incomes?

IT is advisable to devote a separate chapter to the consideration of the income-tax. There still exists much difference of opinion amongst political economists with regard to various questions connected with the levying and incidence of this tax. One of the chief points of dispute is this: Ought incomes arising from a temporary source to be taxed at the same rate as incomes which may be regarded as permanent? There is no doubt that the greater number of people who have written on this subject express a very decided opinion, that the barrister who is deriving 1000*l.* a year from his profession, ought not to pay so high a rate of income-tax as the landowner who receives 1000*l.* a year from freehold land. The arguments which are urged in support of this opinion may be divided into two classes; the first of these classes is based upon arithmetical reasons, whereas the other set of arguments appeal to the general principles of taxation. Let us, therefore, first consider the arguments which are supposed to be supplied from arithmetical considerations.

Statement of the case.

It is urged that the income of a professional man ought to be regarded as an annuity for a certain term of years. It is therefore maintained that a man who derives 1000*l.* a year from some permanent source of income ought to pay a higher rate of income-tax than a man who only enjoys an annuity of 1000*l.* for a certain number of years, which, for purposes of illustration, we will suppose to be twenty. It will be expedient in the first place to discuss this question as one of pure arithmetic, and then consider the plea that is urged in favour of an annuitant, on the ground that he is not so well able to pay the income-tax

which is now levied upon him as the possessor of a permanent income.

Arithmetical argument.

The arithmetical argument will be most clearly elucidated by an example. Let it be assumed that the current rate of interest is three per cent., and that two brothers, A and B, each inherit from their father 10,000*l.* A invests his money in the funds, and the rate of interest is three per cent.; he will, therefore, obtain a permanent income of 300*l.* a year. B invests his 10,000*l.* in purchasing an annuity of 600*l.*, continued during his life-time. Let it be further assumed that the income-tax is a shilling in the pound. According to the present mode of levying the tax, A would pay 15*l.* a year and B would pay 30*l.* a year; and the question arises, Is this equitable, considering that A and B both possess the same amount of property? In order to answer this question, let it be in the first instance supposed that the income-tax is a uniform permanent charge, and that the government is willing to redeem the tax. It is upon this hypothesis quite evident, that an annuity of 600*l.* a year for B's life-time, is exactly equal in value to an annuity of 300*l.* a year continued for ever, supposing the rate of interest to be three per cent.; for either of these annuities can be obtained by the investment of 10,000*l.* But if the income-tax were permanently fixed at the uniform rate of five per cent., A's 10,000*l.* would have to pay an income-tax of 15*l.* a year for ever, because he is supposed to invest it in the form of a permanent annuity. B's 10,000*l.*, however, would only have to pay 30*l.* a year during his life-time, because his annuity of 600*l.* a year will cease at his death. If A and B wished to redeem the income-tax on the 10,000*l.* which they respectively possess, they would each have to pay exactly the same sum to the government; for the present value of an annuity of 30*l.* a year to be continued during B's lifetime must be equivalent in value to a permanent annuity of 15*l.* a year, because it has been assumed that the present value of these annuities is equal. If, therefore, the income-tax were permanent and uniform, it appears on mere arithmetical grounds that a temporary income such as an annuity for a limited term of years ought to be taxed at the same rate as a permanent income. If it is supposed in the above example, that permanent incomes are taxed

If the income-tax were permanent, no injury would be inflicted by taxing temporary and permanent incomes at the same rate.

at the same rate as temporary incomes, then A and B would have to pay the same amount to redeem the income-tax upon the 10,000*l.* which they inherited from their father. Such an arrangement would be just and equitable, since there can be no valid reason why B, because he decides on investing the money in a temporary annuity, should pay a less amount to redeem the tax than A, who invests the money in a permanent income. But an undoubted injustice would be inflicted on A if temporary incomes were taxed at a lower rate than permanent incomes.

A difference in the rate would be unjust to the possessor of a permanent income.

Let it, for instance, be assumed that a permanent income pays a tax of five per cent., whereas a life-annuity annually pays two and-a-half per cent. According to this assumption, B would only have to pay half as much as A in order to redeem the income-tax on 10,000*l.* Why, again, it may be asked, should not the amounts which A and B have both to pay be the same, when it is remembered that A and B both originally possessed 10,000*l.*, and at their own free will chose different kinds of investment? We, therefore, think the above example, simple as it may appear, affords a conclusive arithmetical argument that, if the income-tax were permanent and uniform, temporary incomes ought to be taxed at the same rate as permanent incomes. The conclusion, however, which has just been established is based upon a particular hypothesis; and it remains to be enquired whether the same conclusion holds true, when an income-tax is neither permanent nor uniform.

The income-tax is, however, neither permanent nor uniform.

Whenever the income-tax has been imposed in our own country, statesmen have always most explicitly affirmed that it is only resorted to as a temporary expedient. In order to give a technical form to these assertions concerning the temporary character of the income-tax, the continuance of this tax from year to year is based upon a special Act of Parliament. The people are, moreover, repeatedly assured by successive Chancellors of the Exchequer, that the income-tax shall be reduced immediately the finances of the country will permit such a reduction. It is, therefore, evident that the income-tax is neither permanent nor uniform; for no other tax in our whole fiscal system is so temporary in its character, or so varying in its rate. When this is borne in mind, it may seem that the

views above expressed cannot be maintained, and that temporary and permanent incomes ought no longer to be taxed at the same rate.

If the income-tax is only for a fixed period the temporary income should be taxed at a lower rate.

In order to settle this point, let us revert to our previous example, and suppose that an income-tax of five per cent. is imposed for five years, and that A and B are two individuals who inherit 10,000*l.* each from their father. Let it also be further assumed that A invests his money in the funds and obtains an income of 300*l.* a year, and that B purchases with his 10,000*l.* a life-annuity of 600*l.* If, therefore, permanent and temporary incomes are taxed at the same rate, A will pay five times 15*l.* or 75*l.* during the five years that the income-tax is supposed to be continued, whereas B will pay 150*l.* in income-tax. Now it may be urged that this cannot be just; for why should B pay twice as much in income-tax as A, since they both originally have the same amount of property which they chose to invest in a different manner? Hence it appears to us quite indisputable, that temporary incomes ought to be taxed at a lower rate than permanent incomes, if the income-tax can be really considered to be imposed for only a limited period, which we have here assumed to be five years. Experience, however, incontestably proves that the time during which the income-tax will be continued can never be predicted even with approximate accuracy. This uncertainty, consequently, renders it impossible to frame any equitable method of adjustment based upon the hypothesis that the tax will not be continued for a longer period than that which is originally proposed. For let us see what would have been the result if such a method of adjustment had been adopted in our own country.

But the period is never really fixed.

Results which follow from different rates in our own country.

In the year 1854 the Chancellor of the Exchequer confidently affirmed, that the income-tax would be gradually reduced, and would be entirely abolished in the year 1860. Here, then, a case is presented, exactly similar to that just described; for, reverting to our original example, it may be assumed that the two brothers A and B come into possession of 10,000*l.* each in the year 1854. A invests his 10,000*l.* in the funds, and obtains a permanent income of 300*l.* a year, whereas B purchases with his 10,000*l.* a life annuity of 600*l.* It is therefore manifest that, if temporary incomes are taxed at the same rate as permanent

incomes, B will each year contribute twice as much to the income-tax as A. Now if the income-tax is only a temporary impost which is certain to be repealed in the course of six years, B might very fairly urge that, since his income is derived from the same amount of property as his brother's, they ought to contribute the same amount to the income-tax. B might also further urge that, if he and his brother both wished to redeem the income-tax upon their 10,000*l.*, they ought to pay the same amount for this redemption; B would however be compelled to pay twice as much as A, in order to redeem the tax, if temporary incomes were taxed at the same rate as permanent incomes.

The uncertain duration of the income-tax prevents an equitable adjustment between permanent and temporary incomes.

Those who believed that the income-tax would inevitably expire in the year 1860, would have found it difficult to answer the argument just supposed to be advanced by B. But if such a claim in favour of temporary incomes had been admitted, what would have been the result? The year 1860 comes; the income-tax is neither repealed nor reduced, but is, on the contrary, greatly increased, and even those financiers who indulge in the most reckless assertions, would now scarcely venture to hazard a prediction as to the period when the income-tax is likely to be reduced, much less to be entirely remitted. We therefore maintain, that an equitable adjustment would not have been secured, but, on the contrary, a great injustice would have been done to the possessors of permanent incomes, if, in the year 1854, our statesmen, acting on the supposition that the income-tax would only be continued for six years, had capitalised all temporary incomes, and then so arranged the income-tax, that the same amount of property, though differently invested, should contribute the same amount to the income-tax. Another example may be adduced, in order more clearly to illustrate the injustice which such a method of adjustment would have entailed.

A further example of the injustice resulting from an attempted adjustment.

Let it be assumed that one of the brothers, B, invests his 10,000*l.* in the purchase of an annuity of 2000*l.*, to be continued for six years. The other brother A still invests his 10,000*l.* in the funds, and obtains a permanent income of 300*l.* a year. Let it also be assumed, that in 1854 the income-tax was five per cent., and that it was to remain at

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this amount until the tax was entirely repealed in 1860. If permanent incomes were taxed at the same rate as temporary incomes, then A during these six years would only contribute 90*l.* to the income-tax, whereas B, who has purchased an annuity of 2000*l.*, would contribute 600*l.* There can be no doubt but that such a result would be extremely unfair, if the income-tax were certain to be repealed at the end of the period originally fixed. It has been before remarked, that A and B, each inheriting 10,000*l.*, the tax ought not to take more from one than from the other; it would therefore seem, that B as well as A ought to contribute only 15*l.* a year, and consequently B's income would only be taxed at the rate of $\frac{7}{8}$ per cent. The equity of such a method of adjustment entirely depends on the income-tax being repealed at a fixed definite period. Experience however proves, that the time for the repeal of this tax can never be definitely fixed; for, when the year 1860 arrived, the repeal of the income-tax seemed indefinitely remote; according therefore to the method of adjustment which has been just described, B's 10,000*l.* invested in an annuity would in the aggregate only contribute 90*l.* to the income-tax; whereas A has already contributed the same amount, and will still have to pay income-tax upon his 300*l.* a year, during the whole time that the tax may happen to be continued. We therefore think, that the most simple and the most just plan is to consider the income-tax, and every other tax, as permanent. The extreme uncertainty which exists with regard to the charges which may be made upon the revenue of a country, renders it impossible for any one to foresee when a particular impost may be reduced or repealed. But if the income-tax is regarded as a permanent charge, the whole weight of the arithmetical argument is opposed to the opinion, that there should be any difference in the rates imposed upon temporary and permanent incomes. Besides the arithmetical arguments which support such a conclusion, other subsidiary reasons may be advanced in favour of a uniform rating.

The income-tax should be regarded as permanent.

In the first place it may be remarked, that a uniform income-tax can be collected with great facility, and at comparatively little expense; there would, however, be endless complications and confusion, if a method of adjustment

An adjustment is further made impracticable

was attempted, based on the plan of capitalising temporary incomes. For instance, a different amount of income-tax would have to be levied each successive year from individuals who possessed annuities for a limited period, since the capitalised value of a temporary annuity diminishes each successive year. Again, a great variety of complicated and uncertain rules must be laid down, for the purpose of estimating the capitalised value of incomes derived from speculative investments, such as mining. The difficulty of estimating the capitalised value of incomes arising from trades and professions would involve still more complicated calculations. Thus the barrister of forty, who has a professional income of 1000*l.* a year, ought to be taxed at a higher rate than the barrister of sixty, who has the same professional income. The income of the one is likely to continue very much longer than the income of the other, and therefore the capitalised value of the former income is very much greater than that of the latter. Numerous other difficulties may be readily suggested; the income of the barrister is wholly lost to his family at his death, but the income which a solicitor obtains from his business may be partly enjoyed by his family after his decease, since the good-will of his practice may be sold, or some person may be taken into the business as a partner, who will pay the family a certain annual sum. The capitalised value of a solicitor's professional income must be therefore greater than the capitalised value of a barrister's income of the same amount. Hence, it would appear that incomes derived from one branch of the law ought to be taxed at a higher rate than incomes derived from other branches of the profession. The settlement of such intricate questions as these would give to the income-tax some of the worst qualities that belong to a tax; for it would be uncertain in its amount, and it would be so difficult to adjust in the various special cases which may arise, that a whole army of income-tax collectors and commissioners would have to be employed; consequently the expense and inconvenience of collecting the tax would be enormous. These considerations strengthen our conviction, that the income-tax ought to be levied at a uniform rate, and we entertain this opinion with all the more confidence, because the arithmetical arguments that can be adduced

by the complicated arrangements which it would necessitate.

Example in the difficulty of comparing a barrister's with a solicitor's income.

certainly do not oppose, but rather favour, the present method of levying the tax.

Arguments in favour of adjustment independent of the above arithmetical considerations.

The principle of a uniform income-tax is however opposed, for reasons which are quite independent of any arithmetical calculations. These reasons which we now proceed to consider are, in fact, based upon the first maxim of Adam Smith, which is popularly thought to define equality of taxation. The persons who oppose a uniform income-tax maintain that, whether a temporary and uncertain income ought to be taxed at the same rate as a permanent and certain income, is a question which must be settled independently of arithmetical considerations. For instance, it is frequently affirmed, that an income derived from a trade or profession ought to be taxed at a much lower rate than an income obtained from some such permanent and certain source as the funds, or landed property. When it is asked why this distinction should be made, it is considered quite sufficient to reply, that the tradesman or professional man who obtains an income of 1000*l.* a year cannot so well afford to pay the income-tax as the individual who receives an income of the same amount from the funds, or from landed property. This is undoubtedly true, since the income of the tradesman or professional man is uncertain, and may be altogether lost in the event of his death; whereas the possessor of a permanent income can at his death leave it intact, to be distributed amongst his family. It is, therefore, indisputable, that the income-tax ought not to be levied at a uniform rate, if the principle is admitted that each single tax should be so adjusted that every individual should contribute to it in proportion to his means, or, in other words, in proportion to his ability to pay the tax.

The principle of equality, though true in the abstract, is impracticable in execution and unfair if applied to one tax alone.

It has been stated in the preceding chapter, that this principle is in the abstract perfectly true, and it would no doubt secure equality of taxation, if it could be practically applied to adjust all the taxes that are imposed. But the impossibility of this has already been shown. No method of adjustment will cause individuals to contribute to taxes on commodities in proportion to their means; the amount which is levied from each individual, by these taxes, depends upon the quantity of a commodity which he consumes. Hence it has been con-

cluded that equality of taxation is not necessarily promoted by adjusting some particular tax in such a way that each individual would contribute to it in exact proportion to his means. For instance, if the income-tax were adjusted in strict accordance to this rule, every labouring man in the country ought undoubtedly to contribute his quota to the tax; and yet the introduction of such a change into our present fiscal system would certainly not promote equality of taxation. The labouring classes are most justly relieved from the income-tax; because, in the first place, it would be difficult to collect it from them, and in the second place, they contribute to such a tax as the duty on tea a much greater amount, in proportion to their means, than is contributed by the wealthier classes of the community. The remission of the income-tax upon such incomes as are ordinarily possessed by labouring men, affords some compensation for the inequality of taxation which is necessarily associated with such an impost as the duty on tea. Inequality of taxation may be therefore rather increased than prevented by applying to any particular tax such a rule as that above referred to. Equality of taxation can be best secured, not by botching and patching each single tax, but by contemplating the revenue as a whole. If it is found that any tax presses unequally on any particular class, it is almost invariably better not to attempt to adjust the tax by any complicated arrangements; the inequality of taxation should be remedied by placing the particular class whom it prejudicially affects, in a relatively advantageous position with regard to some other tax. Thus the tea-duty presses very unfairly upon the working classes; but it is in every respect more desirable to compensate them for this inequality of taxation, by a remission of the income-tax, than to afford them compensation by attempting to make the tea-duty so equitable in itself, that every individual should contribute to it in proportion to his means. Various proposals for making the tea-duty a more equitable tax have been, and may be, suggested; for instance, one source of inequality would be removed, if the tea-duty could be made *ad valorem*. The duty which is now paid upon the tea consumed by the poor man is at least three times as great, in proportion to the value of

Equality of taxation to be aimed at by contemplating the revenue as a whole.

Some taxes, such as that on tea, cannot be made to operate fairly by themselves without producing greater counterbalancing evils.

the tea, as the duty which is paid upon superior tea. It has, however, been found almost impracticable to levy *ad valorem* duties upon such a commodity as tea; it was soon proved that these *ad valorem* duties entailed a series of complicated arrangements, which materially interfered with the trade, and, consequently, the tax when made *ad valorem*, though apparently more just, was really more disadvantageous in its aggregate results than it was before. Let us therefore enquire whether similar obstacles would not oppose all the schemes which are often favourably received, for rendering the income-tax more equitable.

Impossibility of levying the income-tax so as to make every one contribute according to his means.

Almost insuperable obstacles at once suggest themselves, if an attempt is made to levy the income-tax in such a way that each individual should contribute to it in proportion to his means. It may be at once asked, How is it possible to supply any test or measure of the amount which a man can afford to pay towards a tax? Certainly such a test or measure is not provided by the nature of the source from which an income may be derived; for the income of almost every individual is obtained from a great variety of different sources; therefore some portion of his income would be permanent, and another part of it may be temporary. Consequently it is impossible to judge of an individual's means, by considering only one part of his aggregate income. Thus A may possess 2000*l.* a year in landed property, and may, in addition to this, derive 1000*l.* a year from his profession. Another individual, B, may possess only 500*l.* a year in landed property, but has a permanent income of 1000*l.* a year from the funds. On what grounds do those who oppose a uniform income-tax affirm that the 1000*l.* a year which B obtains from the funds, should be taxed at a higher rate than the 1000*l.* a year which A is supposed to realise from his profession? B is a much poorer man than A, and it therefore cannot be maintained that B, with regard to a portion of his income, should be taxed at a higher rate than A, because the former can better afford to contribute to the tax than the latter. In addition to the difficulty which has been just suggested, it would be necessary to fix the rate at which each kind of income should be taxed by arbitrary rules, which would be subjected to constant discussion and

revision. With regard to professional incomes, it has already been said, that the solicitor whose practice is worth 1000*l.* a year is a far richer man than a barrister whose practice is of the same value; since a solicitor can either sell the good-will of his business, or leave it to his children, whereas the practice of a barrister can neither be sold nor handed over to another. If, therefore, a permanent source of income is taxed at the rate of five per cent., what principles can be found which will tell us the amount of income-tax which ought to be levied from the incomes of solicitors and barristers respectively? These, and various other considerations which might be adduced, lead to the conclusion, that the present method of levying the income-tax cannot with advantage be materially changed. The income-tax, as it is now levied, avoids those difficulties and complications just referred to. It must also be remembered that, if the arrangements connected with any tax involve any intricate details, the collection of the tax must be expensive. If, moreover, an attempt should be made to equalise this tax by any complicated process of adjustment, many practical difficulties would be sure to arise, which would probably lead to disputes and costly litigation; and thus even those will become more discontented, who are specially intended to be benefited by the adjustment of the tax.

The present system is probably the best.

Having dwelt at considerable length upon the best mode of levying the income-tax, we will next proceed to remark upon that which is technically called the incidence of the tax. As this expression has not been previously employed, it will be necessary to define it. It is quite evident that a tax is frequently not really paid by the person from whom it is levied; for instance, the malt-duty is nominally paid by maltsters, although it is really paid by the consumers of malt, since the price of malt is increased by the exact amount of the duty which is imposed. Similarly, all taxes on commodities are really paid by the consumer, although the government generally levies the tax from either the producer or the importer of a commodity. Hence, it is said that the incidence of these taxes falls on the consumer, and therefore the incidence of a tax may be considered to denote the real, in distinction from the nominal, payment of the tax. As another example it may

Meaning of the term, 'incidence of taxation.'

be mentioned, that the incidence of the poor-rates which are levied upon the land, falls upon the land-owner; for, although such rates are generally paid by the farmer, yet the rent of the land would be so much greater if there were no such rates. The incidence of those taxes just mentioned, is very easy to trace; but with regard to the incidence of some other taxes, such as the income-tax, many questions of perplexity and importance are suggested. Some of these questions we will now proceed to consider.

The incidence of the income-tax will vary according as it is paid out of capital or saved from expenditure.

It may perhaps be remembered, that when expounding some of the fundamental propositions concerning capital, the income-tax was occasionally referred to, in order to show the different results which ensue, according as the tax is paid out of capital, or is saved from increased economy. In the first case, the incidence of the tax partly falls on the labouring classes, whereas, in the second case, the incidence of the tax does not fall on any one but those who pay it. That this must be so is evident, from the following considerations. It has been frequently remarked, that the capital which supports the industry of a country is composed of two portions, which are respectively termed, circulating and fixed capital. The circulating capital of a country is its wage-fund. If, therefore, this fund is diminished, there will be a smaller amount to distribute amongst the labouring classes, and less average wages will be received. The fixed capital of a country consists of machinery, stock, implements, and, in fact, of every kind of wealth which exists in some permanent form, and which is intended to give assistance to the future production of wealth. If, therefore, any tax should diminish the fixed capital of the country, and should thus cause less machinery to be used, or fewer useful public works to be carried out, the industry of the country would be interfered with, and the progress of the nation's wealth would be obstructed. If the income-tax were partly paid out of capital in a country which accumulates wealth rapidly, it is almost certain that the amount would be withdrawn, not from fixed, but from circulating capital. As far as the labourers are concerned, it in the first instance makes little difference whether the income-tax is paid out of circulating or fixed capital; because such fixed capital as machinery and

If paid out of capital the incidence will be to some extent upon the labouring classes.

railways can only be constructed by labour, and, therefore, if a smaller sum is spent upon such works, a smaller sum will be distributed in wages. It therefore appears, that the aggregate wages which are paid must be diminished, if the income-tax be either wholly or partly paid out of the capital of the country. It consequently follows that, if any portion of the income-tax is paid out of capital, the incidence of the tax partly falls on the labourers, although the tax may never be directly levied from them. It will be instructive to explain the process by which the burden of this tax is, as it were, shifted from one class to another.

Explanation of the process by which the incidence of the tax is thus changed.

Let it be assumed that an income-tax of ten per cent. is imposed, and that throughout the country one half of the tax is saved from each individual's personal expenditure, whereas the other half is provided out of capital. Upon this hypothesis, an individual, A, who has an aggregate income of 2000*l.* a year, would be rated at 200*l.* a year; his net income is therefore 1800*l.* His personal expenditure is 1000*l.* a year, and he, therefore, annually saves 800*l.*, which he can invest as capital in his business. If there were no income-tax, his annual income would be 2000*l.*, but, according to our hypothesis, he will only spend one half of the 200*l.* a year, which would be added to his income if the income-tax were remitted; he would consequently each year save 900*l.* if there were no income-tax, and this sum he might employ as capital in his business. The amount of capital which he accumulates is therefore annually reduced by 100*l.* in consequence of the income-tax. Circulating capital is however employed in paying the wages of labourers, and, therefore, the income-tax may diminish by 100*l.* the amount which A annually pays to labourers; consequently this amount is as really paid by the labouring classes as if the income-tax was directly levied from them.

The share of the tax paid out of capital varies in different countries.

It is impossible to assign the exact proportion of the income-tax which will be paid out of capital; but it is nevertheless quite certain that an income-tax would be paid out of capital to a far greater extent in some countries than in others. As an example, it may be mentioned that the industrial progress of India is retarded by a want of capital; her accumulation of capital is compara-

tively so small, that an income-tax could not be imposed in that country without diminishing the national capital, and in this way most seriously affecting the national wealth. In England, however, the income-tax produces none of these serious consequences; no branch of our industry which presents a fair chance of profit is ever retarded for want of capital; in addition to all the capital which we invest in our own commerce and trade, we always seem to possess an almost unlimited supply of capital for foreign investments, if the terms which are offered for the use of it are sufficiently remunerative. It may, therefore, with considerable certainty be concluded, that the income-tax does not seriously diminish the amount of wealth which is produced in this country; for although some portion of the tax is paid out of capital, yet this amount is probably withdrawn, not from fixed capital, but from circulating capital, or, in other words, from the wage-fund. We say that it is not fixed capital which is affected, because that part of fixed capital which consists of machinery, implements, and stock, is never sold for the purpose of paying the tax, nor can any one suppose that less machinery is employed in industry, or fewer useful permanent improvements carried out in consequence of the income-tax. Our circulating capital may no doubt, to some extent, be diminished; if this be so, a portion of the tax is virtually contributed by the labourers. In England, however, as well as in most other countries, the average amount of the income-tax which is respectively paid out of capital or saved from personal expenditure, varies greatly in the different sections of the community. Those who have incomes of 150*l.* or 200*l.* a year are usually obliged to deprive themselves of many things which they consider almost indispensable. Such persons, therefore, if released from the income-tax, would probably spend the whole additional income which the remission of the tax would give them. The wealthy merchant, however, who is worth his 20,000*l.* a year, would most likely not increase his personal expenditure in the slightest degree, although the repeal of the income-tax might give him an additional 1000*l.* a year to spend. The additional 1000*l.* which he would thus annually accumulate would not induce him to extend his own business; he would probably

It also varies greatly in different sections in the same country.

invest the 1000*l.* in some security. It therefore appears that the additional capital which will be saved, if the income-tax is repealed, would be principally thrown into the money-market for investment; the amount saved would not be employed as capital by each individual tax-payer, because in a country where so much commerce is transacted by credit, the individual tax-payer would, before the income-tax had been remitted, have had no difficulty in obtaining extra capital to embark in his business.

In this country the effects of the income-tax are probably not so important as has generally been assumed.

As far, therefore, as the capital of the country is concerned, the effects of the income-tax are not in this country so important as they are generally supposed to be; because, let it be assumed (and it is rather an excessive estimate), that 6,000,000*l.* out of the 10,000,000*l.* which the income-tax annually yields would be saved as capital, if the tax were repealed. 6,000,000*l.* thrown into the money-market for investment, cannot produce any momentous results upon the industry of a country whose wealth is so great that, as in 1863, 8,000,000*l.* could in a few weeks be raised for foreign loans without apparently exerting any influence upon our trade. The remaining 4,000,000*l.*, which, according to our estimate, is saved from personal expenditure, expresses the real amount of the temporary comfort and enjoyment of which the tax deprives the community. It has been already stated that to this last amount different sections of the community contribute in very unequal degrees; the wealthy man who is accumulating capital rapidly, does not spend less in consequence of the tax, his personal comfort is not in the slightest degree interfered with, and the only result of the tax to him is that he possesses a few thousand pounds less of realised property. Very different consequences, however, result to those who possess the small incomes which just come within the range of the tax. For instance, an income of 150*l.* a year is taxed at the same rate as an income of 10,000*l.* There can be no doubt that the owner of such a small income as 150*l.* cannot pay even a few pounds towards an income-tax, without depriving himself or his family of the means of satisfying some real want or enjoyment of life. The income-tax, therefore, entails a far greater sacrifice upon such a person than upon the more

The income-tax imposes great sacrifices upon persons with moderate incomes.

wealthy man who can pay the tax without encroaching upon his personal expenditure.

The inequality to which allusion has just been made is attempted, in some degree, to be remedied in our own country by remitting the income-tax upon all incomes of less than 100*l.*; incomes between 100*l.* and 150*l.* are taxed at a lower rate than incomes exceeding the latter amount. It is, however, evident that this remedy creates another inequality. If an income-tax of five per cent. is imposed on the lowest class of incomes, the owner of an income of 100*l.* will have to pay 5*l.* towards the tax, whereas an income of 99*l.* will entirely escape the tax. The unfairness of such an arrangement is manifest. Mr. Mill has proposed a very simple scheme for the purpose of obviating this unjust anomaly. He maintains that the legislature ought in the first instance to decide what is the maximum income which should be allowed to escape the income-tax, and he considers that a decision upon this point ought to be chiefly guided by the principle that an income should not be taxed if it was not more than sufficient to provide its owner with the mere necessaries of life. Such a principle would of course only enable a rough estimate to be made; for it would be difficult to decide whether 70*l.*, 80*l.*, or 100*l.*, ought most consistently with justice to be the maximum income upon which the tax should not be levied. The important thing, however, is to fix a limit. Let it, therefore, be supposed that the limit is the same as now, 100*l.* a year. Mr. Mill proposes to deduct this amount from every income, and only tax the remainder. The owner, therefore, of an income of 120*l.* a year would only pay the tax upon 20*l.* This plan manifestly provides a complete remedy for the inequality to which we have just alluded. The plan involves no practical difficulties, and is founded upon strict justice; since, if the tax is not imposed on an income of 100*l.* because such an income is no more than sufficient to provide its owner with the mere necessaries of life, the tax ought, with regard to all incomes, to be remitted upon a similar amount which has to be expended in the mere necessaries of life*.

Mr. Mill's proposal for obviating this injustice.

* The scheme proposed by Mr. Mill was adopted in a modified and imperfect form by Mr. Gladstone in his Budget of 1863. The plan which he brought forward, and which was accepted by the House of Commons, was

The scheme advocated by Mr. Mill, is not to be confounded with any of those proposals for graduating the income-tax which have been by some so warmly espoused. It has been urged, as an almost self-evident principle, that an income of 10,000*l.* ought to be taxed at a far higher rate than an income of 1000*l.* It is apparently thought that such a distinction should be made, because a man with an income of 10,000*l.* is so rich, that he is hardly affected by the tax. This principle, however, if carried into practical effect, might lead to some very mischievous results; it would, as it were, place a penalty upon the accumulation of wealth. All such schemes which are aimed against large capitals probably obtain popular support, because they seem to favour the ignorant prejudice which is so frequently expressed against what is termed the tyranny of capital. There was a time when the labourers of this country believed that the owner of a large capital possessed a peculiar power to oppress them. Superior education and the rapid extension of cooperative institutions are already beginning to make the labourers understand the true functions of capital. It should, moreover, be borne in mind, that the strongest theoretical argument which can be urged against the income-tax, is based upon the fact that it is imposed upon savings. The man who has 10,000*l.* a year, and spends the whole of his income, only pays the tax once; but the man who has an equal income, and only spends a portion of it, pays in the first instance the same amount to the tax, and is also each year compelled to pay the tax upon the income which is derived from the investment of the amount which he has saved from his annual income. The income-tax, therefore, to a certain degree, encourages spending, and discourages saving. This, as we have already said, is a matter of little consequence in a country like our own, where the desire to accumulate wealth is so strong, and consequently the

Difference between this proposal and some other schemes which have been proposed.

Mischievous nature of those which are unfavourable to the accumulation of capital.

This is especially true in a poor country.

to deduct 60*l.* from all incomes between 100*l.* and 200*l.* Thus the possessor of an income of 140*l.* now pays the tax only on 80*l.* The inequality which previously existed has no doubt been diminished, but it has not been completely removed; for instance, it still happens that an income of 100*l.* pays the tax on 40*l.* whereas an income of 98*l.* escapes untaxed. Again, the possessor of an income of 200*l.* only pays the tax on 140*l.* whereas the possessor of an income of 205*l.* is taxed on the whole amount of his income.

amount of capital which is annually saved is so vast. But in India the accumulation of capital is so vitally important, that the income-tax, because it discourages the accumulation of capital, is likely to be injurious to the industry of that country. It therefore follows that, as far as even England is concerned, the most serious objection which can be urged against the tax is greatly strengthened if it should be so graduated that the tax is increased in proportion to the amount which an individual saves.

Objection to the income-tax from the difficulty of estimating some of the incomes upon which it is raised.

In conclusion, it is necessary to refer to a serious objection connected with the income-tax which cannot be obviated by any method of adjustment. It is evident that the tax can be accurately levied upon all incomes the amounts of which are publicly known. Thus the Bank of England, when paying the dividends arising from the funds, deducts the income-tax, and hands the amount over to the government. It is, therefore, impossible for a fund-holder to evade the tax. The tax is also similarly deducted from all official salaries, and also from the pay of officers in the army and navy. The amount of the tax which is levied from various other kinds of incomes is also regulated by definite rules. For instance, a farmer's income is estimated to be equivalent to one half his rent. If, therefore, his rent is 800*l.* a year, and if the income-tax is five per cent., the income-tax levied upon him will be 20*l.* His income may no doubt be either more or less than 400*l.* a year, but when the rule has once been made, he has no power to evade any portion of the tax, because the amount at which he is assessed is precisely determined. But with regard to various other classes of traders it is impossible to ascertain the amount of their incomes by any definite rules. The income of a manufacturer or retail trader can only be approximately estimated; an opportunity is thus afforded to evade a considerable portion of the tax. Morality is unfortunately too often based on conventionality; and many who pass for honest men do not hesitate to cheat the government, although in the private transactions of life they would shrink from doing anything in the least degree dishonourable. Numerous cases have occurred which strikingly exemplify the dishonesty that is practised by many in their dealings with the government.

The dishonesty which is occasionally thus produced.

The following well-known instance has frequently been quoted. A particular street in London was, during a certain period, closed for traffic in consequence of improvements which were being carried out. The business of the various tradesmen who lived in the street was prejudicially affected, and they consequently claimed compensation. The amount of compensation which each individual received was apportioned to the net income which he derived from his business. All the tradesmen, consequently, made a return of their incomes. Some one thinking that these returns were excessive, had the curiosity to compare them with the amount of the incomes which these tradesmen returned for the assessment of the income-tax. The extraordinary and, it may be added, the melancholy fact was revealed, that the tradesmen living in a respectable London street could practise so much deception, that for the purpose of assessing the income-tax they returned their incomes at a certain amount, and immediately declared that their incomes were double this amount when pressing their claims for compensation. It is, therefore, evident that, as long as such duplicity is prevalent, many will evade a part of the income-tax which they are bound to pay to the government. Hence the tax operates with a certain degree of unfairness, because some classes of the community have a chance of evading the tax, whereas others have not.

This immorality can scarcely be considered as a weighty argument against the tax.

The inequality which is caused by this power of evasion is not by many so much objected to as the general immorality which they conceive to be produced by such taxation. It is, for instance, maintained that the income-tax places so great a premium upon deception, that many who would otherwise be honourable, are tempted to deceive the government. Little attention, however, ought to be paid by statesmen to such an argument. The morality of those individuals who are so easily led away from the paths of virtue and honour is scarcely worth the fostering care of a government. Every precaution should of course be taken to detect and punish those who make false returns, because the burden which they escape is thrown upon the rest of the community.

CHAPTER III.

TAXES ON COMMODITIES AND OTHER INDIRECT TAXES.

Distinction between direct and indirect taxation.

THE last chapter was devoted to the discussion of the income-tax, and although this tax manifestly differs in many essential respects from other direct taxes, yet the income-tax possesses many characteristics which are common to all direct taxes. We shall, therefore, be enabled, after having described indirect taxation in the present chapter, to compare or rather to contrast the two systems of taxation.

Direct and indirect taxation are words of such frequent use that they probably need no definition. It may, perhaps, however, be well to state, that a direct tax is really paid by the person from whom it is levied, whereas an indirect tax, though nominally paid by one person, is really paid by another. An income-tax*, and all assessed taxes such as taxes on private carriages and dogs are direct taxes; for they deprive those who pay them of an amount of wealth equivalent to the tax. But an entirely different result follows with regard to an indirect tax, such as the malt duty; for in such a case, although the malt duty is in the first instance paid by the maltster, yet the tax really comes out of the pockets of the consumers of beer, because the price which they are compelled to pay for beer is increased by an amount which must at least be equivalent to the tax imposed. It is,

Taxes on commodities are necessarily indirect.

* As explained in the last chapter, an income-tax is sometimes partly paid out of circulating capital. In this case the tax diminishes the wage-fund, and is therefore really paid by the labourers. But it is sufficiently exact to state that an income-tax is a direct tax because it is intended that the tax should take so much wealth from those upon whom it is levied. In the case of an indirect tax, such as the duty on malt, it is intended to tax the consumer of beer, and not the maltster who in the first instance pays the tax.

therefore, manifest that taxes on commodities are indirect; because if commodities are taxed they are increased in price, and consequently the consumers of the commodities really pay the taxes, although they may in the first instance be levied upon the importers or producers of commodities.

Other taxes may become indirect,

It must not, however, be supposed that there are no indirect taxes except those which are imposed upon commodities; for instance, a tax which is in its essential character direct, may become indirect by private and commercial arrangements, and by many other causes. Thus, in England, it is customary for the tenant-farmer to pay poor-rates; it is, however, evident that all such charges as these are really paid by the landowner, because if a farmer has to contribute 100*l.* a year in poor rates, he is able to pay so much less a year for the use of his land; consequently, if no poor-rates were imposed, the landlord might increase the rent of his farm by the whole amount which his tenant previously contributed to these rates. The same remark applies to various other rates, and also to tithes; it therefore appears that there is not necessarily an essential distinction between a direct and an indirect tax, for we have seen that a direct may be converted into an indirect tax, simply by a private commercial arrangement, since there is no reason whatever why the poor-rates should not in all cases be paid by the landlord, and not by his tenant. If this were done, the poor-rates would become a direct tax. It is, therefore, possible that the words direct and indirect when applied to a tax may denote only a nominal distinction; the tax, however, which is imposed on commodities cannot be made a direct one, since it would be impracticable to levy the tax upon each person who may have to purchase any particular article; consequently, the real points of distinction between the two different systems of taxation will be best elucidated by comparing the effects of a direct tax with those which result from a tax imposed upon a commodity.

and indirect taxes may be made direct.

The taxes considered here are those imposed for revenue, not

At the commencement of this enquiry it may be important to remark, that various commodities have been taxed in our own country, and are still taxed in many other countries, in order to protect native industry, and not solely for the purpose of obtaining revenue for the State.

for protection.

We intend hereafter to discuss the theory of protective duties, and we shall therefore, for the present, consider those taxes on commodities which are imposed for the sole purpose of obtaining revenue for the State. The last remnant of protection has been banished from our fiscal system, and every tax is now carefully adjusted with the view of placing the home and foreign producer in a position of equality.

Taxes on commodities are almost invariably incapable of satisfying the condition of equality of incidence.

As previously stated, a tax upon any commodity must almost invariably be opposed to Adam Smith's first canon of taxation, which affirms that 'each person ought to contribute to the revenue in proportion to his ability to pay.' Taxes on commodities cannot be framed in obedience to this rule, for various reasons. In the first place, it may be remarked that taxes on commodities can seldom be made *ad valorem*, and it is quite evident that from this circumstance great inequality of taxation must inevitably result. As an example it may be mentioned that every pound of tea which is imported into this country has at the present time to pay a tax of 6*d.* per pound. The inferior qualities of tea which the poor principally consume, would if admitted duty free be retailed at a price certainly not exceeding 1*s.* 6*d.* per pound. It, therefore, follows that the tea which is used by the poor, who are the least able to contribute to the revenues of the State, is taxed at the rate of more than 30 per cent., whereas the superior qualities of tea which are purchased by the wealthy at four shillings per pound, only pay a tax of about fourteen per cent. This inequality of taxation, which in a greater or less degree is common to those taxes which are imposed upon commodities, rarely admits of any practical remedy. For instance, it has been frequently proposed to make the duty on tea vary with the quality of the tea; but those who are most competent to form a practical judgment affirm that such a method of adjustment would be frustrated by the extreme difficulty and uncertainty of testing the quality of tea at the custom house. As before remarked, the inequality to which we have just alluded, and from which taxes when levied upon commodities cannot as a general rule be freed, must as far as possible be compensated by making other taxes, such as the income-tax, fall most lightly on those who are the most injured by the

This may be partly compensated by other taxes.

particular inequality which we have just described. These considerations induce us again to remark, that equality of taxation can be most effectually secured, not by framing any one tax in obedience to Adam Smith's first rule, but by applying a general process of compensation to the whole revenue.

Taxes generally satisfy the principle of being certain.

Let us next enquire to what extent taxes on commodities can be made consistent with Adam Smith's second rule, which states, that 'the amount which each individual contributes to a tax ought to be certain and not arbitrary.' In one sense almost all taxes on commodities strictly obey this rule or principle of taxation. The producer or importer of a taxed commodity can always know the exact amount which the particular tax will levy upon him. If the duty on tea is 6*d.* per pound, the merchant who imports a cargo of tea can calculate with strict accuracy the amount of duty which the tea must pay; the same remark applies to the producer of a taxed commodity such as malt.

There are however exceptions in the case of ad valorem duties.

The only case in which uncertainty can arise is when a tax is made *ad valorem*, because then the test which the government may apply to ascertain the value of any commodity may be uncertain and imperfect in its operation. There has been an instance of this in the financial measures of Mr. Gladstone. Within a few years the spirit duties have been raised, and when Mr. Gladstone proposed in 1860 a great reduction in the duty on wine, he felt that the difference between the duty on wine and spirits was so great that the revenue might be defrauded by mixing spirits with wine, and importing the whole as wine. With a view of preventing such a fraud, he proposed to tax wine in proportion to the amount of alcohol it contained. The plan which was adopted to ascertain the quantity of this alcohol was denounced by those engaged in the wine trade as most vexatious; and they chiefly based their complaint upon the uncertainty of the tax when it was so imposed, for they affirmed that they never could tell beforehand the amount of duty which any particular wine would have to pay. It must, however, be admitted that such uncertainty with regard to taxes on commodities is exceptional, and rarely if ever exists, unless an attempt is made to adjust the tax according to some *ad valorem* standard.

They are generally paid at the time most convenient to the consumer,

The third rule of taxation laid down by Adam Smith affirms that 'every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it;' the enquiry must therefore be made whether taxes on commodities are generally consistent with this rule. In making this enquiry it will be necessary to distinguish the real from the nominal payer of the tax; for it has been already stated that the burden of these taxes really falls upon the consumers of a commodity, although the tax is generally levied from the producer or importer. Taxes on commodities are no doubt paid, as far as the consumer is concerned, at a time and in a manner which is most convenient; for the tax is in fact levied upon the consumer at the time when he pays for the commodity which he may purchase. But the producer or importer of a commodity may be called upon, in consequence of defective financial arrangements, to pay the tax at a time and in a manner most inconvenient. Sometimes the inconvenience just alluded to is entirely due to injudicious financial arrangements; sometimes, however, it is inherent in the nature of the tax; when this is the case, the tax ought not to be imposed, except as a financial necessity. For instance, it seems that the duty on hops could not be levied, except in a manner which was most inconvenient to the growers of hops, and thus a strong argument was provided for the repeal of this duty. Hops were taxed at so much per pound, whatever was the quality or quantity of the crop; the tax was assessed immediately the crop was gathered in, and the hop grower was compelled to pay the duty at a certain definite time, whether he had sold his hops or not. The hop crop is so uncertain, that the grower could never accurately calculate how much he should be called upon to pay. If he were not a man of large capital, he was compelled to sell his hops, whether he wished to do so or not, in order to pay the duty. A too abundant crop was also a great disadvantage to the grower; the demand for hops does not vary greatly from year to year, and, consequently, there must be great fluctuations in the price of hops, since the crop of one year is often three or four times as great as the crop of the next year. The amount of duty which a grower had to pay was proportionate to the abundance of the yield, and it

but frequently at a time inconvenient to the producer or importer.

therefore not unfrequently happened, that a large crop was most disastrous to the grower, because the maximum amount of duty had to be paid when the price of hops was extremely low. These, and other inconveniences, seemed to admit of no adequate remedy, and, therefore, the hop duties have been most properly repealed.

This inconvenience may be avoided by judicious arrangements, such as bonding houses.

It generally happens, that many of the inconveniences connected with the time and manner of levying a tax on a commodity can be greatly diminished by proper financial arrangements. As an example, the bonding houses may be referred to, which offer great facilities and advantages to those who import taxed commodities. A merchant may not wish immediately to sell the goods he imports, he is therefore permitted to place them in bond, and as long as they remain in bond, he is not compelled to pay any duty upon them. This, no doubt, is a just arrangement, because the government intends that the consumer of the commodity should really pay the tax imposed upon it; therefore, as short an interval as possible ought to elapse between the payment of the duty and the sale of a commodity. The merchant simply advances the tax, and if repayment is deferred, he will be compelled to employ a greater capital in his business, and the consumer will be consequently charged a higher price for the commodity.

They generally take more out of the pockets of the people than they bring into the state treasury.

The last rule of taxation propounded by Adam Smith affirms, that 'every tax ought to be so contrived, as both to take out, and to keep out of the pockets of the people, as little as possible over and above what it brings into the public treasury of the state.' It has been previously stated, that any tax which is expensive to levy, will be inconsistent with this rule. The same remark holds true if a tax diverts labour from a productive to a more unproductive employment; if it encourages smuggling, and lastly, if it necessitates restrictive regulations with regard to the mode in which any trade or industry is conducted. Taxes on commodities cannot, as a general rule, be completely free from all the faults which have been just described, but the faults may be much mitigated by proper financial arrangements. A tax, whether levied on a home-produced commodity, or upon one which is imported, must be expensive to collect. A great number of excise and custom officers must be employed to assess and

collect the tax; and an enormous outlay is often required to prevent smuggling and other kinds of fraud. Smuggling is much more easily prevented in an island like our own, than in a country where a great extent of land frontier has to be protected. The difficulty of guarding 2000 or 3000 miles of frontier would render the imposition of custom duties most undesirable in such a country as America.

The expenses of collection may be reduced by a judicious selection of taxes.

The expense of collecting a certain amount of revenue by taxes on commodities is very much diminished, if the taxes are confined to a few articles of general consumption: when a tax is imposed upon some article of limited use, the cost of collecting the tax is always enormous in proportion to the amount yielded to the state. About thirty years since, the tariff of this country contained a list of 300 or 400 articles, which were subject to either excise or custom duties. The great majority of these duties have been most properly repealed, and at the present time, tobacco, tea, coffee, sugar, and a few other articles, are alone subject to custom duties; malt and spirits being the articles which chiefly contribute to that portion of our revenue which is raised by excise duties. Again, with regard to smuggling, there can be no doubt that it is much discouraged by the removal of extremely high duties on articles which contain a great value in small bulk, and which can therefore be readily concealed. A tax on a commodity may, however, in various ways which are not so frequently noticed, take out of the pockets of the tax payer an amount which greatly exceeds that which the tax yields to the state.

But the price may be unduly enhanced for the consumer.

In the first place it may be stated, that when a commodity is taxed, the price which the consumer has to pay for it is increased by an amount which often exceeds the amount of the tax. Thus let us take the case of a tax being levied under very favourable circumstances, and suppose, as an example, that a retail grocer buys so many chests of tea direct from bond. The amount of tea which he buys we may assume to be 3000*l.*; the value of this tea would not probably exceed 2400*l.*, if tea were admitted duty free, because, considering the average quality of the tea sold, the duty on tea may be estimated at twenty-five per cent. upon its value. The grocer, when he sells this tea by retail, will of course expect to realise the ordinary

trade profit. This profit we will suppose to be twenty per cent.; the grocer will therefore obtain 3600*l.* for the tea, which cost him 3000*l.*, whereas if it were not for the duty, the grocer would be obliged to give only 2400*l.* for the same quantity of tea, and would be remunerated with the same per centage of profit, if he sold this tea to his customers at such a price as would realise for him 2880*l.* It therefore appears, that those who purchase this tea pay 720*l.* additional for it, although only 600*l.* of this amount is received by the government as duty. Hence, upon this hypothesis, the duty takes out of the pockets of the tax payers twenty per cent. more than it gives to the revenue of the State. This is the most serious objection which can be urged against taxes on commodities, and it is one which has not been adequately considered. It must, moreover, be remembered, that the case just described, does not as a general rule adequately represent the amount which a tax on a commodity keeps out of the pockets of the people, beyond what it yields to the State. For instance, it has been assumed that the tea is purchased by the retail grocer direct from bond, but no doubt it much more frequently happens that the tea, after it is taken from bond, passes through the hands of four or five dealers, before it is ultimately sold to the consumer. If, therefore, it is supposed that tea pays a duty of twenty-five per cent. upon its value, each of these dealers will require twenty-five per cent. more capital to conduct his trade in tea. The ordinary profit of trade must be realised upon the additional capital which is thus required to be employed; consequently, when a commodity is taxed, the consumer is generally compelled to pay for it a price which is increased to an extent far exceeding the amount of the duty.

This is the most serious objection against taxes on commodities.

A more serious defect cannot belong to any tax than that it should take from the tax-payer an amount which greatly exceeds that which it yields to the revenue. This defect, to a greater or a less degree, accompanies all indirect taxation; for all indirect taxes are in the first instance paid by the producers or importers of a commodity, who are remunerated by the increased price which the consumer is compelled to pay. In every instance, some time must elapse between the payment of the duty and the sale of a commodity, and, consequently, the trader who first

It affects to some extent all taxes on commodities.

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advances the tax must wait for a certain time before he is repaid by the consumer. But the trader is compelled to employ a portion of his capital to make this advance, and upon this capital he will expect to obtain the ordinary trade profit; this profit the consumer must return to him, in addition to the amount of the tax. This most serious defect, though inherent in all taxes on commodities, may be very much diminished by proper precautions. Thus it is evident, that as short an interval as possible ought to elapse between the levying of a tax on a commodity, and the time when it is ready for consumption. On this account it is much more desirable to tax manufactured goods than the raw material. In order to illustrate this point still further, let us briefly trace the different results which would be produced by a tax on raw cotton, and by a tax on cotton goods.

Illustration of the fault. Results of taxing raw cotton

It may be assumed, that the two different taxes yield the same amount to the revenue. Let it in the first instance be supposed that raw cotton is taxed, and that a manufacturer who purchases 10,000*l.* of raw cotton has to pay 1000*l.* duty. The tax, therefore, compels him to employ a capital of 11,000*l.* instead of 10,000*l.* Upon this additional capital he will expect to realise the ordinary trade profit, which may be assumed to be ten per cent. At the end of a twelvemonth he sells the goods which have been manufactured from this raw cotton to warehousemen; since, however, the duty imposed on the raw cotton has necessitated the employment of 1000*l.* additional capital, the price of these manufactured goods must in consequence of the tax be increased by 1100*l.*, and not by 1000*l.*, which is the amount really received by the government; for if this were not so, the manufacturer would not be adequately compensated for the capital employed in his business.

or manufactured cotton goods.

Let us now make a second supposition, and consider the tax to be paid upon the manufactured goods. Then the manufacturer would not be called upon to pay the tax, until his goods were actually purchased by the retail dealer, or warehouseman, and, consequently, the tax would not compel him to employ a larger capital in his business. In this case, therefore, the price of the goods, when sold by the manufacturer, will not be increased by an amount

exceeding the amount of the tax. It therefore appears, that a tax on manufactured goods, if it can be easily levied, is far preferable to a tax on raw material. It however not unfrequently happens, that a manufactured commodity cannot be taxed without subjecting the particular trade to the most injurious interference; for in order to assess an excise duty, and in order to prevent fraud, various kinds of restrictions with regard to the particular mode in which trade is carried on must be enforced, and great annoyance is often caused by vexatious visits of the excise officers. Thus few taxes on a manufactured commodity can be assessed and collected with greater facility than the duty on malt, yet maltsters are compelled to carry on their trade according to certain strict rules. Notice, for instance, must be given when the barley is to be wetted; the barley, when wetted, must be thrown out in a particular manner on the floors to be dried, and the exciseman can visit the malt-house whenever he pleases. Such interference would be a still more serious evil, if some commodity should be taxed which involved complicated processes of manufacture, each of which has to be conducted according to certain rules, and to be watched by government officers, in order not only to prevent fraud, but to assess the tax. Such interference would oppose an insurmountable obstacle to the development of a branch of industry, for all that enterprise would be checked which stimulates the introduction of machinery, and other industrial improvements.

The last tax would take much less from the consumer.

Taxes on manufactures however cause annoyance in other ways.

The remarks hitherto made in this chapter have been restricted to the import duties and to the excise duties that are imposed upon the commodities which are consumed in the country; the government, in fact, intends that the burden of these taxes should fall on the consumers. It is, however, manifest that various exported commodities may be also taxed. It has, however, been thought desirable to consider separately the operation of export duties, because these duties are imposed with the view of shifting the burden of the tax upon foreign countries. It will, however, be shown that, contrary to popular opinion, it almost invariably happens that, in attempting to tax the foreigner, the country that imposes an export duty taxes itself.

Question of taxing exports.

Effects of an export duty such as a duty on coals.

To discuss the operation of export duties, it will be necessary to recall some of the principles which were established with regard to international trade. When investigating that subject it was proved that there is a constant tendency in operation to make the exports of a country pay for its imports; it was also shown that the amount of profit which each country derives from interchange of commodities varies inversely with the demand which the one country has for the products of the other. Let us, therefore, bear these principles in mind when tracing the effects of an export duty. One of the most recent export duties that has been proposed was an export duty upon coal; this financial measure was warmly advocated by Mr. Horsman in 1860, and was received with some favour. Let it be assumed that a duty of 2*s.* was levied upon each ton of coal exported. The price of English coal in foreign countries would in consequence of the tax be increased two shillings per ton. The demand for commodities always varies inversely with their price, and therefore this increase in the price of coal would diminish the demand for English coal in foreign countries. The export of coal from England would consequently be diminished; the decrease in the export would be greater with regard to some countries than with regard to others. France, for instance, purchases coal from Belgium, and if Belgian coal remained untaxed, France might probably cease to import coal from England if our coal was subject to an export duty. It therefore appears that the first result of any export duty would be to diminish the amount of our export trade. The commodities which were subject to an export duty would decline in price to the home consumer in consequence of the foreign demand for them being checked. It might therefore seem that an export duty on such an article as coal would confer two great advantages on the general body of the tax-payers; in the first place, it would cause foreigners to contribute to our revenue, and thus relieve us of a portion of our taxation; secondly, the price of coal would be reduced, and this would be advantageous to the nation at large.

Its apparent advantages.

A partial set-off to them.

It may, no doubt, be urged as a set-off to these apparent advantages, that the coal trade would suffer in consequence of this diminution in the export of coal, and that the

owners of collieries would realise smaller profits, owing to the fall in the price of coal. It may, however, be rejoined, that the loss which thus accrues to those engaged in a particular branch of industry is more than compensated by the advantages which we have shown would be conferred upon the general body of the tax-payers. But an important point still remains to be determined, for the effect which might be produced upon our import trade, if our exports were checked by the imposition of a duty, has not yet been considered.

Investigation of the effects produced on our import trade.

In order to investigate this question it may be supposed that an export duty upon coal has caused France to cease importing coal from this country. It has been already proved that exports pay for imports; it is, therefore, manifest that if the export trade of a country is diminished, the amount of her imports must also be diminished; this must be so, because the commodities which are exported pay for those that are imported. Such a decrease in the foreign trade of a country must diminish national wealth; since it has been shown that foreign commerce increases the efficiency of labour and capital, by enabling each country to apply itself to those branches of industry for which it possesses the greatest natural advantages. It, therefore, appears that the question, whether or not an export duty is advantageous as a financial measure, must be mainly determined by the circumstances of each special case. For instance, it is quite possible that an export duty may entirely prevent the export of a commodity; this would no doubt be the result if an export duty were in this country imposed upon silk manufactures. The competition between France and England in the silk trade is extremely keen; on the one hand, France has cheap labour, and her clearer climate is supposed to give a superior colour to her dyes. On the other hand, England can perhaps manufacture more economically, because she possesses more perfect machinery and cheaper fuel. It is consequently difficult to decide whether France or England can sell silk goods to foreign countries at the cheapest rate. It is, therefore, evident that the imposition of even a small export duty upon English silks would, as far as this branch of industry is concerned, completely drive England from foreign markets. The prosperity of an important branch

of industry would thus be imperilled, and an export duty under such circumstances would be most disastrous and indefensible.

Effects of an export duty imposed upon cotton by the United States.

A much more favourable case for the imposition of an export duty will next be considered. It cannot be disputed that the United States have hitherto possessed to a great extent a natural monopoly for the growth of cotton. No other country has been able to produce cotton of so good a quality at so cheap a rate. Let us, therefore, trace the consequence which would have ensued if a small export duty, say of a halfpenny or a penny per lb., had been imposed upon American cotton. Even so small an export duty as this would have yielded a considerable amount to the revenue of the United States. Foreign countries who purchased American cotton would of course be compelled to pay this duty, and it will therefore be instructive to enquire, whether such a financial measure would in any way have prejudicially affected the material interest of the United States. The first effect of such a duty would manifestly be to raise the price of American cotton in all countries which import it by an amount at least equivalent to the duty. If the duty was a penny per lb., England would be compelled to pay sixpence instead of fivepence per lb. for American cotton. It may be perhaps thought that this rise in the price of American cotton would induce England to obtain cotton from other sources of supply; this, no doubt, would be so, if other countries possessed the same advantages for the production of cotton as America. It therefore follows, that it would be most unwise to impose an export duty either on a raw or manufactured commodity, if the commodity could be produced on as favourable terms by other countries as by the country which imposes the export duty. But with regard to cotton, it was shown during the late civil war in America that, without the United States, it is impossible for England and other countries to obtain the quantity of raw cotton which they require. The available supply from other sources is in fact so limited, that a rise in the price amounting to 200 or 300 per cent. fails to bring us so large a quantity of cotton as we are willing to purchase at even these high rates. Until, therefore, the resources of India and other countries are more fully developed, it cannot be supposed

that we should resort to other countries for raw cotton if the United States imposed a small export duty upon this material. The rise in the price of cotton which would be caused by this duty would slightly diminish the quantity of cotton which such a country as England would purchase. If the English manufacturers have to pay a higher price for raw cotton, they must charge a higher price for manufactured goods, and if the price of cotton goods is increased, the demand for them will be diminished. But a very slight rise in the price of cotton goods would be sufficient to compensate the manufacturer for a rise in the price of the raw material, and so slight a rise in price would exert but little influence upon the demand for a commodity which is not used as a luxury, but which serves to provide one of the necessaries of life. It is impossible to predict the position which the cultivation of cotton may in future occupy. The United States had, for some time previously to the late war, possessed a natural monopoly for the growth of cotton; as long as this natural monopoly continued, the imposition by the United States of a small export duty upon raw cotton would have been politic, considered merely as a financial measure. Although, in the special case just investigated, we have spoken somewhat favourably of an export duty, yet it must be borne in mind that our remarks were based on the fact that the United States possessed, with regard to the growth of cotton, a natural monopoly. This, therefore, is quite an exceptional case: an export duty would almost invariably, as shown in a previous example, jeopardise the export trade of a country, and thus diminish the national wealth.

Such a duty might not seriously affect the price of manufactured cotton,

and might, as an exceptional case, be financially politic.

We have hitherto, in this chapter, considered that import duties are imposed for the sole purpose of obtaining revenue for the State. But until a very recent period it was almost universally believed that another most important end was attained by import duties. Thirty years since the theory of protection was as generally accepted in this country as it is now discarded. In America, in France, and in most continental countries, the great majority of politicians are even at the present day ardent protectionists. It is, therefore, still extremely important, as a practical question, to investigate the effects of import duties when they are imposed for the double purpose of obtain-

Import duties imposed for the sake of protection.

ing revenue, and of protecting native industry. It is quite evident that an import duty can be easily arranged so as to obtain the double object. We have already, for instance, alluded to the closeness of competition in the silk trade, between France and England. If, therefore, an import duty, say of ten per cent., should be placed upon French silks, and if at the same time English silks should be subject to no excise duty, it is manifest that French silks would probably be almost entirely excluded from the English market. A similar end might be attained with regard to all other imported commodities. It is consequently possible to limit, or altogether stop the importation of a commodity, by subjecting it to a sufficiently high import duty.

A protective tariff always involves a waste of capital and labour.

The principles which have been established with regard to international trade clearly prove the loss which the nation suffers if protective duties either prevent or check the importation of commodities. When trade is carried on between two countries, the wealth of each is increased, because each country is enabled to apply its labour and capital to those branches of industry for which it possesses the greatest natural advantages. Thus reverting to our previous illustration, it has been assumed that the cost of growing corn, compared with the cost of producing iron, is much less in France than in England. The supposition has, for instance, been made that a ton of iron costs as much to produce, in France, as twenty sacks of wheat; whereas, in England, a ton of iron would only be equivalent in value to twelve sacks of wheat. It is, therefore, easy to perceive the loss which France and England would both suffer if protective import duties imposed in France upon English iron should prevent the importation of English iron into France, and if protective duties imposed in England upon corn should prevent the importation of French wheat into England. Such a protective tariff would cause labour and capital to be wasted, or, in other words, would deprive them of a part of their productive power. Twelve sacks of wheat cost England as much to produce as one ton of iron; but if the trade between England and France were unrestricted, England might divert a portion of her labour and capital from the growth of wheat to the production of

iron for France; it would be manifestly greatly to the advantage of France to give England sixteen sacks of wheat for each ton of iron. Hence, unrestricted trade so much increases the wealth of a country, that a certain amount of labour and capital, which before would only obtain twelve sacks of wheat, now produces a ton of iron, in exchange for which a foreign country will willingly give sixteen sacks of wheat.

Protectionists ignore this loss, and point out the temporary evils inflicted upon home industry by free trade.

The argument just adduced, considered in conjunction with the remarks which have been made upon international trade, may be regarded as conclusively demonstrating the injurious effect which is produced upon a nation by protective duties. Protectionists, however, ignore this loss of national wealth; they advocate the protective system, because they conceive that, without its support, some special branches of industry would be unable to compete against foreign countries. It might, for instance, be argued that it would be impossible for the English farmer to compete against the French farmer, if wheat can be grown at a much cheaper rate in France than in England; on the other hand, it would be equally impossible for the French iron-master to compete against the English iron-master, if cheap English iron is freely imported into France. It is, therefore, plausibly argued that free trade is a dangerous experiment if it should cause the agricultural interest to be ruined in England, and the iron interest to be ruined in France. It can, however, be easily shown that no class of traders can either be permanently benefited by protective duties, or permanently injured by free trade. Landowners are the only class that can derive a lasting advantage from protection. Property in land may be described as the possession of a natural monopoly. The value of this natural monopoly may be artificially raised by protection, but it can be shown that other circumstances almost invariably deprive even the landowners of this special advantage.

A consideration of free trade in corn in England

The effect produced by the corn-laws on the position of the English farmer, may be quoted to prove that no class of traders can be permanently benefited by protective duties. The restrictions which the corn laws imposed upon the importation of corn no doubt increased

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shows that it cannot permanently injure any class of English traders.

its price in this country; it was therefore concluded that protection, because it increased the price of corn, conferred a special benefit upon the English farmers. It must, however, be borne in mind that permanent low prices are as advantageous to the English farmer as permanent high prices. In a country like our own, where there is great commercial enterprise, the competition of capital is constantly exerting a tendency to equalise profits in different trades. If the price of all agricultural produce should be doubled, the farmer's gross returns would *cæteris paribus* be doubled; his profits therefore would be enormously augmented, if he were able to appropriate to himself all these additional returns. But if the profits of the farmers, or of any other class of traders, should be greatly increased, an active competition for farms would be at once stimulated, the rent of land would consequently rise, the profits of the farmer would soon be reduced to their former amount, and thus the landowner, and not the farmer, would be ultimately benefited. Again, if the price of agricultural produce should be reduced by foreign importations, the profits of the farmer might be greatly diminished; traders, however, will cease to continue a business if they are unable to realise from it the ordinary rate of profit. Landowners will, consequently, be obliged to submit to a reduction of rent; hence, it is not the farmer, but the landowner, who would ultimately suffer. Of course, farmers may be temporarily benefited by a sudden rise in prices, or temporarily injured by a sudden fall. For instance, many farms are let on lease, and the rent of such farms cannot therefore be either immediately raised or immediately lowered. When, moreover, the profits which are realised in a particular trade are affected by a sudden change of prices, a considerable time must elapse before the trade is again restored to its normal or steady condition; during this interval the trader may either secure exceptionally great gains, or may have to submit to an unusually low rate of profit.

Free trade might cause temporary injury to land-owners;

It has been proved, as a possible theoretical result, that the landowners may be injured by the abolition of protective duties. The experience which has been derived from the introduction of free trade into this country has shown that the landowner will generally receive compen-

sation in various ways. The rent of land has not diminished but has considerably increased since the passing of free trade. This fact may be readily explained, for although the price of wheat has been reduced by foreign importations, yet a more than corresponding rise has taken place in the price of other kinds of agricultural produce. Meat, dairy produce, and even barley, are much dearer now than they were previous to the repeal of protective duties. It must moreover be remembered, that the rise in the price of these articles is in a great measure due to free trade. Our commerce, released from the trammels of protection, has expanded in the most extraordinary manner. An augmentation in our export trade amounting to 100,000,000*l.* represents an enormous addition to the accumulated wealth, or, in other words, to the capital of the country; but if the capital of the country is augmented, the wage-fund must also be increased, and thus the additional wealth which has been created by unrestricted commercial intercourse has been distributed amongst the nation at large. The people, having in this way been made wealthier, consume a greater quantity of meat, dairy produce, and beer. Meat and dairy produce are expensive to import, and barley, after being for a length of time in the hold of a ship, does not make good malt. Hence these commodities have all greatly risen in price; farmers are consequently now able to pay higher rents than they could when they were protected by prohibitive duties, and growing prosperity for the landed interest has been substituted for the impending ruin which was so often gloomily predicted by protectionist statesmen.

but, in practice, can rarely produce that effect.

Foreign competition may, no doubt, cause some particular branches of industry to be altogether relinquished, if the industry has been artificially sustained and fostered by protective duties. As an example, it may be mentioned that this country, following the example of France, might have imposed high import duties upon sugar, with the view of encouraging the home manufacture of sugar from beet-root. A home sugar interest of great importance might thus have been artificially created; if, however, the support of protection should be removed, it would be impossible for the producer of home-grown sugar

Particular branches of industry may suffer from free trade for a time, but its ultimate effects must be beneficial,

to compete against the foreign importer; this particular department of native industry would therefore be immediately destroyed. Such a destruction of a branch of industry may be perhaps regarded as most disastrous, because it may be thought that labourers would be thrown out of employment, and capitalists would be deprived of an eligible investment for their capital. The labourers engaged in one particular kind of industry no doubt suffer a temporary loss if they are compelled to relinquish the labour to which they are accustomed; each branch of industry requires some special skill or knowledge, and consequently those who are compelled to engage in a new kind of labour lose the advantage of their acquired skill. Again, employers always suffer a certain amount of loss if they are obliged to relinquish the industry to which they are accustomed; they also possess a special knowledge, which they must to a great degree sacrifice, and capital cannot be transferred from one employment to another without considerable waste. In every branch of industry there is a large amount embarked in the form of fixed capital; machinery, buildings, and plant, cannot be converted to a new use without involving great expense. These temporary disadvantages may no doubt accompany the removal of protective duties, but an abundant compensation is provided by the great benefits which are sure ultimately to result from free commercial intercourse.

for it cannot be a loss to a country to import commodities instead of producing them.

The general body of the consumers are provided with cheaper commodities, and the wealth of the country must be increased, because labour and capital are both rendered more productive. The principal argument which foreign protectionists still urge against free trade would be removed, if it is once clearly perceived that it cannot be any loss to a country to import commodities instead of producing them. If commodities are imported, commodities of an equivalent value must be exported to pay for those which are imported. If, therefore, the introduction of free trade causes a nation to purchase commodities, instead of producing them herself, the aggregate wealth in the country cannot be diminished—labour and capital are simply transferred from one industry to another; since, if a greater amount of commodities is purchased from foreign countries, a larger quantity must be also produced at

home, in order to supply the increased exports which pay for these additional imports*.

* The old battle between Protection and Free Trade is being fought out in our Australian colonies. The Melbourne correspondent of the "Times," in one of his able letters tells us that the protectionist party defend their conduct by quotations from the works of many political economists, including, amongst others, Mr. J. S. Mill. It is scarcely necessary to say that Mr. Mill has explained the mischievous fallacies of protection as clearly, and probably more clearly, than any other living writer. The Colonial protectionists maintain that he supports their views, because in one passage of his 'Principles of Political Economy' (*vide* Book v. Chap. x.) an opinion is expressed, that in the case of a young colony, a protective duty may occasionally be wisely imposed, if it can be clearly shown that this artificial encouragement may cause some branch of industry to be permanently and prosperously established in a colony, and if it can also be shown that this branch of industry might never have been introduced, if it had not been first stimulated and fostered by protection. Mr. Mill makes this exception in favour of a protective duty, because he supposes that any industry when first established in a colony has always to struggle with peculiar difficulties. The colony therefore will be placed under a great disadvantage, if it has to compete with a country in which some particular industry has been carried on for a long period. The colonial trader will relinquish this unequal struggle unless he receives some assistance from the State in the form of protection, and thus many different kinds of industry, for the successful prosecution of which the colony may perhaps have peculiar advantages, will be virtually banished from the colony. The arguments of the Colonial Protectionists have now been presented in their most plausible and favourable form. Mr. Mill has no doubt put a strong case, if we assent to the hypothesis upon which it is based. But in our judgment he has over-stated the peculiar difficulties which an industry has to contend with, when first introduced into a new colony. Australia has purchased from England nearly all the manufactured commodities she requires instead of producing them herself, because in England labour, machinery and fuel are cheaper than they are in Australia. There is apparently no reason why these circumstances, which give to England a superiority in manufacturing industry, should act with less force if the Australians are induced to form manufacturing establishments by the promise that British goods shall be excluded from their markets. As long as labour, machinery and fuel continue to be so dear in Australia, that it is cheaper to buy goods in England and also pay in addition the cost of carrying them 12,000 miles, it cannot be supposed that manufacturing industry will thrive in this colony. But if in the course of a few years, the economic condition of Australia should change; if, for instance, labour should become so much cheaper in that country, that woollen or cotton goods could be made there cheaper than they could be imported from England, then it appears to us quite certain that woollen and cotton manufactures would thrive in Australia, and that their progress will not be impeded by any special difficulties, which are so formidable that they can only be vanquished by a protective tariff.

It is most remarkable that this demand for protection should have arisen in a community where the wages paid are higher than those which are received by the labourers of any other country. Moreover, in Australia the position of the capitalist is as satisfactory as that of the labourer, for in previous chapters it has been frequently remarked that in Australia

Effects of an export duty such as a duty on coals.

To discuss the operation of export duties, it will be necessary to recall some of the principles which were established with regard to international trade. When investigating that subject it was proved that there is a constant tendency in operation to make the exports of a country pay for its imports; it was also shown that the amount of profit which each country derives from interchange of commodities varies inversely with the demand which the one country has for the products of the other. Let us, therefore, bear these principles in mind when tracing the effects of an export duty. One of the most recent export duties that has been proposed was an export duty upon coal; this financial measure was warmly advocated by Mr. Horsman in 1860, and was received with some favour. Let it be assumed that a duty of 2*s.* was levied upon each ton of coal exported. The price of English coal in foreign countries would in consequence of the tax be increased two shillings per ton. The demand for commodities always varies inversely with their price, and therefore this increase in the price of coal would diminish the demand for English coal in foreign countries. The export of coal from England would consequently be diminished; the decrease in the export would be greater with regard to some countries than with regard to others. France, for instance, purchases coal from Belgium, and if Belgian coal remained untaxed, France might probably cease to import coal from England if our coal was subject to an export duty. It therefore appears that the first result of any export duty would be to diminish the amount of our export trade. The commodities which were subject to an export duty would decline in price to the home consumer in consequence of the foreign demand for them being checked. It might therefore seem that an export duty on such an article as coal would confer two great advantages on the general body of the tax-payers; in the first place, it would cause foreigners to contribute to our revenue, and thus relieve us of a portion of our taxation; secondly, the price of coal would be reduced, and this would be advantageous to the nation at large.

Its apparent advantages.

A partial set-off to them.

It may, no doubt, be urged as a set-off to these apparent advantages, that the coal trade would suffer in consequence of this diminution in the export of coal, and that the

owners of collieries would realise smaller profits, owing to the fall in the price of coal. It may, however, be rejoined, that the loss which thus accrues to those engaged in a particular branch of industry is more than compensated by the advantages which we have shown would be conferred upon the general body of the tax-payers. But an important point still remains to be determined, for the effect which might be produced upon our import trade, if our exports were checked by the imposition of a duty, has not yet been considered.

Investigation of the effects produced on our import trade.

In order to investigate this question it may be supposed that an export duty upon coal has caused France to cease importing coal from this country. It has been already proved that exports pay for imports; it is, therefore, manifest that if the export trade of a country is diminished, the amount of her imports must also be diminished; this must be so, because the commodities which are exported pay for those that are imported. Such a decrease in the foreign trade of a country must diminish national wealth; since it has been shown that foreign commerce increases the efficiency of labour and capital, by enabling each country to apply itself to those branches of industry for which it possesses the greatest natural advantages. It, therefore, appears that the question, whether or not an export duty is advantageous as a financial measure, must be mainly determined by the circumstances of each special case. For instance, it is quite possible that an export duty may entirely prevent the export of a commodity; this would no doubt be the result if an export duty were in this country imposed upon silk manufactures. The competition between France and England in the silk trade is extremely keen; on the one hand, France has cheap labour, and her clearer climate is supposed to give a superior colour to her dyes. On the other hand, England can perhaps manufacture more economically, because she possesses more perfect machinery and cheaper fuel. It is consequently difficult to decide whether France or England can sell silk goods to foreign countries at the cheapest rate. It is, therefore, evident that the imposition of even a small export duty upon English silks would, as far as this branch of industry is concerned, completely drive England from foreign markets. The prosperity of an important branch

CHAPTER IV.

ON THE LAND-TAX.

Peculiar nature of a land-tax. Importance of the land-tax in India.

WE propose to discuss the land-tax in a separate chapter, because in some respects this tax differs in its incidence from all others.

The Land-tax possesses a special, practical importance at the present time, for although it yields a very insignificant portion of the revenue of this country, yet a large part of the revenue of our greatest dependency, India, is provided by the taxes which are imposed upon land. The nature and incidence of the land-tax will be clearly understood, by considering the mode in which the dominion of Great Britain was established in India. The British traders who first settled in that country found it governed by a great number of petty rulers, who owned the soil, and derived their revenue by making their subjects pay a rent, or tax, for permission to cultivate the land. The dominions of these native rulers were obtained by the English, either by annexation, or by conquest: and, consequently, our government gradually became possessed of a great portion of the soil of India, and could exercise over it the same rights of property as those which an English landlord exercises over his own estate. The government in India takes the place of individual landlords, and the cultivators of the soil rent their land from the government instead of from private landowners. It, therefore, appears that there is no real, but simply a nominal distinction between a land-tax and rent, for in a previous chapter, it was shown that rent is the price which is paid for the use of an appropriated natural monopoly. If land has been appropriated by the government, then the price paid for the use of this appropriated

The land-tax is often in the nature of rent.

natural monopoly is received by the government, and is termed a land-tax. If, however, the price is paid to a private individual, then it is termed rent.

The land-tax does not injure the cultivators of the soil.

From these considerations it is evident, that as far as the cultivators of the soil are concerned, it can be a matter of no consequence whatever to them, whether they pay a land-tax to the government, or whether they pay rent to private landowners. Hence a land-tax is no burden upon the cultivator, nor does this impost cause any loss to the rest of the community. It therefore follows, that a land-tax, as long as it does not exceed a rack-rent, cannot increase the price of products raised from the land, for those who grow the products would not sell them cheaper if they paid rent to a private landlord, instead of paying the same amount to the government in the form of a land-tax. A land-tax consequently differs from all other taxes, for it possesses the excellent quality of providing a large revenue for the State without diminishing the wealth of any class in the community. Those, therefore, are completely in error, who quote the aggregate amount of taxation which is raised in India, in order to prove how heavily the people of that country are taxed. At least 19,000,000*l.* per annum is obtained in India by the land-tax, but it would be as unreasonable to consider this amount as a burden laid upon the people, as it would be to consider that the whole rent which is paid to English landlords in this country is an impost levied upon the cultivators of the soil.

If the land-tax exceeds a rack-rent in amount it must raise the price of agricultural produce.

It is, however, quite possible that a land-tax may exceed a rack-rent in amount, and the tax would, in this case, increase the price of agricultural produce. Suppose, as an example, that our government should arbitrarily take possession of all the landed property of this country. The English farmer would then rent his land from the State, and not from private individuals; the position of the cultivator would manifestly be unaffected by this appropriation of property if rents were determined then, as now, by competition. The same rack-rent would, in fact, be paid by the farmers, and the price of agricultural produce need in no way be influenced by such a transfer of property. But let us enquire what would occur if the government resolved to levy a greater rent, in the form of land-tax, than the rack-rent which the cultivator previously paid,

Let it, for instance, be assumed that the government levies 500*l.* a year in land-tax from a farmer whose rent had been previously 400*l.* a year. It will be remembered that a rack-rent is the price which is paid for the use of land when rents are determined by competition. Since, therefore, free competition of capital is supposed to exist, the farmer, after paying a rent of 400*l.* a year, will realise on the average of years the ordinary rate of profit upon his labour and capital. The extra 100*l.* a year which it is assumed the government levies from him, he cannot afford to pay; or, in other words, the payment of this additional sum will prevent him realising the ordinary rate of profit upon his labour and capital, unless he is compensated by a rise in the price of agricultural produce. No class of traders will, however, continue an occupation if it is permanently less profitable than other branches of industry; hence it is impossible for a land-tax to exceed a rack-rent in amount without producing a rise in the price of agricultural produce. It therefore follows that all that portion of a land-tax which exceeds a rack-rent in amount is really contributed by the consumers of agricultural produce, since the price of such produce is increased.

A land-tax which exceeds a rack-rent tends to throw the soil out of cultivation.

Other considerations show, that when a land-tax exceeds a rack-rent in amount, a counteracting influence is brought into operation which diminishes the aggregate revenue which the land-tax yields. For it is evident that the importation of agricultural produce will be encouraged, if the price of such produce is artificially raised in the home market by an excessive land-tax. But if an increased amount of produce is imported, a diminished quantity of produce will be grown in the country itself. Directly, therefore, a land-tax is greater in amount than a rack-rent, a tendency is exerted to throw land out of cultivation. This tendency will continue if the land-tax is increased, and thus the area of land from which the tax can be levied will be gradually restricted.

The land-tax in England only denotes that the State

The land-tax which exists in our own country forms only a very small part of the rent which is paid to private landlords. Such a tax should properly be considered to denote that the State has reserved a small pecuniary share in the ownership of the soil. The relative value of the shares

which the landowner and the State respectively possess was very different formerly to what it is now. The land-tax in our own country has long since been commuted for a fixed money payment, and the tax has consequently not increased with the enormous advance in the value of landed property. As far as the cultivator is concerned, it makes no difference whether he pays the land-tax or not, because if it is arranged that the tax should be levied from him he manifestly pays so much less rent to the landlord. As before said, such a land-tax as that which exists in England merely denotes the fact, that the State possesses a certain pecuniary interest in the soil; and it is therefore evident that both the profits of the cultivator and the price of agricultural produce must be the same whether the land-tax exists or not; or, in other words, whether the State has, or has not, reserved for itself a certain right of property in the soil. It might therefore have been a fortunate circumstance for the nation if the land-tax in this country were greater in amount than it is at the present time. It would now, however, be an unjust confiscation of property to increase the land-tax; such an augmentation of the tax would be paid entirely from the rent of landowners, and would therefore be as indefensible as any other impost levied upon one special class. But it would have been a boon to the tax-paying community if, when the land-tax was first imposed, its amount had been fixed not at a certain sum of money, but at a certain definite proportion of the value of the land. If this arrangement had been adopted, the amount which the land-tax yields to the revenue would have been constantly augmented in proportion to the increase in the value of the land; the amount of revenue thus raised, though constantly augmenting, would be felt as a burden by no class, because the land-tax is as it were spontaneously provided by the appropriation of a natural monopoly; therefore the tax will yield a larger revenue as the value of this monopoly increases.

retains a small interest in the soil.

An augmentation of the land-tax now would injure the landholders.

The tithe which exists in this country is essentially a land-tax, and was originally equivalent in value, as its name implies, to one tenth part of the produce of the land. The tithe has not been usually termed a land-tax, because it was, originally, appropriated to religious

Tithes are equivalent to a rent-charge.

purposes, and consequently did not form a part of the general revenue of the State. Only an inconsiderable portion of the tithes in this country has since the Reformation served as a religious endowment, for tithes are now generally possessed by private individuals like any other kind of property. A tithe is in fact a rent-charge upon landed property, and this rent-charge is frequently not possessed by the owners of the land. As far as the cultivator is concerned, it manifestly can be a matter of no consequence whether such a rent-charge does or does not exist. If the land which he cultivates is tithe-free, the whole amount which he pays for the use of it will be regarded as rent; if, however, the land should be subject to a tithe, the amount which the cultivator pays for the use of the land will be the same as it would be if the land were tithe-free; but the whole of this amount will no longer be considered as rent, for it will be shared between the landowner and the tithe-proprietor.

The Tithe Commutation Act.

The tithe, like the land-tax, would be now very insignificant in amount, if it had been originally commuted at a fixed money payment. Previous to the Tithe Commutation Act, which was passed in 1837, the tithe was assessed as nearly as possible upon the principle of making it equivalent in value to one tenth of the produce of the land: the tithe consequently increased as the value of landed property increased, for the tithe would manifestly be augmented if the productiveness of land increased, or if the value of agricultural produce advanced. The main object of the Tithe Commutation Act was to facilitate the assessment of the tithe, and the amount which is now annually paid as tithe is determined by the average price of corn during the previous seven years. It is quite possible that tithe-proprietors may be ultimately injured by this commutation. The amount at which the tithe is now assessed being solely determined by the price of corn, it is evident that the tithe proprietor is not benefited by a rise in the price of stock. In this work the opinion has been frequently expressed that stock is destined to become relatively much dearer than corn, because stock must be always difficult to import, whereas the area from which corn is obtained is rapidly extending. A tithe therefore constantly represents in value a smaller proportion of the

It may be ultimately injurious to tithe-proprietors.

whole value of the produce raised from the land, if the amount at which the tithe is assessed is not influenced by the rise in the value of stock, but is solely determined by the price of corn.

Tithe-proprietors derive no benefit from increased productiveness of the soil.

A tithe proprietor under the present commutation derives no benefit from the increased productiveness of land. Improved methods of tillage may double the produce which is raised from a farm, and yet the tithe paid upon it will not be increased, unless there is a rise in the price of agricultural produce. It was no doubt with great force urged by the promoters of the tithe commutation, that a tithe-proprietor ought not to share with the landowner the additional produce which results from superior agriculture. It was, for instance, maintained that the land is rendered more productive by the expenditure of capital upon it, and it would therefore be unfair that the tithe-proprietor should be benefited by an outlay of capital which has been entirely contributed by the landowner. It was moreover argued that the admission of this claim on the part of a tithe-proprietor might seriously impede agricultural improvements, since landowners would be reluctant to invest capital, if others were to share with them in the advantages of the outlay.

CHAPTER V.

THE POOR-LAW AND ITS INFLUENCE ON PAUPERISM.

THE rapid increase of pauperism is a subject which at the present time has assumed an overwhelming importance. Parliament, the press, and the country urgently demand that steps should be taken to check its further development. It appears, therefore, not inappropriate to devote a few pages to the consideration of the causes which have produced the wide-spread poverty that exists even in the wealthiest nations.

The prevalence of pauperism in England.

It has been frequently asserted that there is more pauperism in England than in any other country. It is difficult, with certainty, to prove whether or not we possess this unenviable pre-eminence. Our statistical returns of misery are perhaps exceptionally accurate. It also not improbably happens that the painful impression produced by the poverty existing amongst us is intensified, because it is so frequently contrasted with profuse and wicked extravagance: but without expressing any positive opinion as to the relative amount of pauperism existing in different countries, it is sufficient to say that at the present time the pauper question is, in England, one of the gravest of economic problems.

There are two ways of obtaining relief, poor-rates and private charity.

Those of our population who need relief obtain it in two distinct ways; in the first place, any person upon application has a right to demand maintenance from the poor-rates; secondly, relief is voluntarily administered by an almost countless number of private charitable institutions. We shall attempt to trace some of the effects which result from each of these systems of assisting the impoverished.

The English are the only people who have ventured to incur the grave responsibility of proclaiming that everyone

possesses a legal right to be supported from the rates. The adoption of such a principle of national policy must be fraught with consequences of the utmost importance. It is evident that if the relief which can be legally claimed were administered with carelessness, or were granted too profusely, pauperism might become a desirable occupation, and the people who were supported by rates might be better off than those who lived by honest toil. If our poor-laws exerted any such influence as this, it is certain that the country would be ruined; nothing, in fact, could avert national bankruptcy. At the beginning of the century such a danger seemed impending, for pauperism was steadily encouraged by the method of relief which was adopted. At that time rates were often applied in such a manner as to offer a direct reward to improvidence. It was then the custom for parochial authorities to give grants to able-bodied labourers, if their wages were insufficient adequately to maintain them. The amount of these grants was proportioned to the number of children a man happened to have; those, therefore, would generally obtain the most who had been most improvident with regard to marriage. This system exerted much the same influence in encouraging imprudence and in stimulating an undue increase of population, as might accrue if employers were to pay their labourers, not according to the amount of work done, but in proportion to the number of their children. These grants in aid of wages not only caused incalculable mischief, but rates when applied to such a purpose were really dishonestly appropriated; the wages of labourers were, in fact, only in part paid by those who employed them, the remainder being obtained from the ratepayers. If anyone profited by the system it was the landowner; for when wages are low, farmers can afford to pay higher rents. The gain, however, to the landowners was more apparent than real, because it is upon them that a considerable part of the burden of increased rates falls; and the gain, whatever it might have been in the first instance, was purchased at an enormous ultimate cost. This country is still feeling the effects of the stimulus which was then given to improvidence; and when landowners complain of the excessive rates which are now imposed, they should remember that no small portion of the poverty

The allowance system. Its evil effects in stimulating population.

prevailing in the rural districts is to be traced to the encouragement to pauperism which was given by their forefathers. It is difficult to trace all the pernicious influence which was exerted upon the labourer by these grants in aid of wages. All independence of character in him was destroyed; he was bound, as it were, hand and foot, to the authorities from whom he obtained a portion of his maintenance; so little freedom of action did he possess, that he might be regarded as a serf attached to the soil. A combination of evil influences was thus brought to bear to depress and degrade the labourer, and the present unsatisfactory condition of large sections of our population is a proof that the mischief arising from the old state of things has not passed away.

But pernicious as were these grants in aid of wages, there were probably other circumstances connected with our system of poor-law relief which produced even more disastrous results. It is well known that the celebrated Act of Elizabeth was our first poor-law. This Act not only conferred upon every individual a legal claim to be supported, but it also asserted a principle fraught with the most momentous consequences; that the relief should be parochial, or, in other words, that each individual should have a claim to be supported by the parish to which he belonged. The adoption of the principle that each parish should support its own poor necessitated the passing of many complicated Acts, which sought to determine what constituted 'belonging to any particular parish.' These Acts were known as the Laws of Settlement. In the first instance, it was affirmed that no one had a claim upon any parish except upon the one in which he was born. Parochial authorities were consequently tempted to prevent any new comer from settling in their parish; for even if they could discover the place in which he was born, they might have the expense of sending him back to his own parish in the event of his applying for relief. The circulation of labour was almost prohibited, and incalculable loss was inflicted both upon employers and employed. In one district there was often a superfluity of labour, and in another district a corresponding dearth. From time to time remedial measures were attempted; thus, in the reign of William III., an Act was passed which permitted

The Law of Settlement.

parish officers to grant certificates, stating the particular parish to which an individual was chargeable. The possessor of one of these certificates was more likely to be admitted into any parish where he was anxious to seek employment; but grave hardship was still inflicted upon the labourers; they had not the power to claim these certificates as a right, and therefore the parish authorities would often refuse to grant them, fearing that the migration of labour might tend to advance its price. It seems that no effectual remedy either was or could be applied; and Adam Smith, in his 'Wealth of Nations,' asserted that there was probably no artizan of forty years of age who had not suffered from the law of settlement. As time went on, more and more injury was inflicted on the country by our poor-laws. Allowance in aid of wages and recklessness in granting out-door relief were gradually pauperising the country, and the rates, which were constantly increasing, absorbed a large portion of the profits of industry. At length it became evident that something decided must be done, and in the year 1834 a most important Act was passed, which is known as the New Poor Law. The chief characteristic of this Act was the discouragement of out-door relief. Guardians obtained the power to refuse out-door relief altogether; if any able-bodied man, who was too lazy to work, applied for relief, the guardians could compel the applicant to become an inmate of the workhouse; and residence in the workhouse is usually regarded as a kind of imprisonment; a most important check was thus given to voluntary pauperism. In Ireland the principle has been carried still farther, for there no out-door relief is given. The New Poor Law did little to correct the inequalities connected with the incidence of rates, and many of the grievances associated with the law of settlement remain unredressed.

The New Poor Law of 1834 *discouraged out-door relief.*

The greatest inequalities in the amount of rates imposed on different localities must evidently result from carrying out the principle that each parish should support its own poor. It generally happens that the poor live in one locality, and the rich in another. Those who own the land in some of the wealthiest parishes in London virtually prohibit the residence of the poor in them; for when the land is leased to builders, the stipulation is made that

Inequalities in rating.

none but houses of a certain character shall be built. Wealth does not like to be brought into contact with poverty; it consequently happens that in some of the richest London parishes the rates are merely nominal; and the burden of pauperism frequently falls with greatest severity upon those who are themselves verging upon pauperism.

A different kind of injustice is associated with inequality of rating in the rural districts. Landowners often prohibit the erection of cottages on their estates, the labourers who till the land are therefore driven into the neighbouring towns; if they need relief, it is obtained not from those who profit by their labour, but from the town population.

The Union Chargeability Act.

This injustice has, to a certain extent, been remedied by the Union Chargeability Bill, passed in the session of 1865, after it had been most violently opposed by the landed interest. By this bill, no parish is exclusively responsible for the support of its own poor, but the charge is borne by each Union, in which many parishes are usually comprised.

Arguments against a national Poor-rate.

Proposals are often made to extend still further the area of chargeability; at the present time, there are indications that an agitation is commencing in favour of a national poor rate. There is one very powerful objection to this scheme. If the cost of pauperism were defrayed by imperial taxation, local authorities would cease to be sufficiently interested in economical administration. The amount annually expended upon pauperism would inevitably increase; but this additional outlay, although a grave evil in itself, would represent only a small portion of the injury which would be done to the nation by an undue laxity in granting relief. It will presently be shown that our poor laws, as at present administered, often give a most disastrous encouragement to improvidence; and the baneful influence thus exerted would be greatly intensified if each town or parish felt that money lavishly given to relieve their poor would make no perceptible difference in the amount of their own taxation.

It may, however, be admitted that pauperism ought, in part at least, to be regarded as a national charge. The whole nation is responsible for the bad laws, the unjust imposts, and the unnecessary wars, which have done so

much to create and perpetuate poverty; it is therefore right that a part of the cost which this poverty entails should be borne by the nation in its aggregate capacity. It would be neither just nor wise that the whole cost should be made a national charge. Such a proposal would not be just, because poverty has often been produced, in part at least, by local circumstances which the people of each community could control. The proposal would be unwise, because it would destroy the existing guarantees for economy; and would thus, for reasons previously stated, stimulate improvidence. In accordance with the views just expressed, the relief of the poor ought to be made partly a local and partly a national charge; a certain portion, say one third or one half of the whole amount required, should be obtained from local rates, the remainder being provided from the imperial exchequer. This arrangement would preserve the existing guarantees for economy, would remove much of the present inequality in rating, and would practically recognise the sound and true principle, that pauperism has been produced partly by national and partly by local causes. The division of the charge in the manner just proposed would also secure another advantage.

Poor-rates ought to be partly a national and partly a local charge.

It is well known that local rates are levied upon real property alone, such as land, mines, and houses. Personal property escapes these charges altogether. This system of rating probably had its origin in the opinion that land is the only source of wealth. In one sense this doctrine is true, because all the material objects which compose wealth are either directly or indirectly products of the land. But each year a greater portion of the wealth of such a country as England exists in the form of personal property, and there is no valid reason why the owner of such personal property as government stock, should escape all local taxation. If, however, such local expenditure as arises from pauperism, were partly defrayed from the national exchequer, then personal property would at once be made to contribute; for many taxes, such as the income-tax, are levied, not only upon real, but also upon personal property. Some who at the present time are most strenuously protesting against the existing system of levying rates, strangely misapprehend the incidence of taxation.

The incidence of Poor-rates.

Farmers, who in various chambers of agriculture express themselves strongly on this subject, are repeating the fallacies which were current in the days of Protection. It used to be supposed that farmers were peculiarly interested in maintaining a fiscal system which was intended to make corn artificially dear; farmers either could not or would not understand that it was not the cultivator but the owner of the soil who derived profit from high prices. Similarly, farmers ought not to deceive themselves with the idea that they will ultimately appropriate to themselves the advantage which will accrue from a reduction of rates. Suppose that a farmer pays 1000*l.* a year in rent, and that the rates upon his farm are 200*l.*; if these rates were reduced by one half, the landowner, at the expiration of the lease, would say to his tenant, 'Formerly you paid 200*l.* a year in rates, you now pay only 100*l.* a year, and therefore you can afford to give me an additional rent of 100*l.*'

The incidence of rates imposed on trade premises,

It is usually assumed that poor-rates are also a charge upon land when levied upon trade premises or upon dwelling houses. It therefore becomes important to trace the incidence of the rates in these cases. If the rates imposed upon trade premises were uniform throughout the country they would be a uniform charge upon capital invested in industry. The effect of such a charge would be twofold. It would reduce the rate of profit and would increase the price of commodities. Any charge imposed upon home industry increases the advantage of investing capital abroad. An influence would thus be brought into operation to increase the amount of capital exported when compared with the amount retained for home industry. This would diminish national wealth, and by lessening the capital retained for home investments, would cause a reduction in the average rate of wages. Such a tax upon industry would moreover increase the price of commodities; this rise in price would be greatest with regard to those commodities which cannot be imported. If the poor rate is not uniform, the industry of those districts where the rates are the most onerous, will be placed in a peculiarly disadvantageous position. The burden will be borne partly by the employers and partly by the employed. A trade when subject, in a particular locality, to an excep-

tional tax, can only continue to be carried on by the employers consenting to accept less than the average rate of profit, and by workmen consenting to accept less than the average wages. The present depression of the shipbuilding trade on the Thames is no doubt to a great extent due to the heavy rates which have long been imposed in the East of London.

and on dwelling houses.

It is somewhat more difficult to trace the incidence of poor-rates levied upon dwelling houses. There are in this case three persons to be considered—the owner of the land upon which the house is built, the builder, and the occupier. It is manifest that the rates cannot fall upon the builder. He obtains upon his outlay, including the price which he pays for the land, just such a return as will secure the average rate of profit upon the capital expended. The competition of capital, on the average of years, determines that neither a larger nor a smaller profit than this is secured. The owner of a house will of course suffer a loss if rates are raised after the house has been built. This will be especially the case if the advance is so partial that it does not extend throughout the locality.

The supposition is made that rates are uniform throughout the country.

In enquiring whether rates are borne by the owner of the land upon which a house is built or by the occupier, it may be assumed that a uniform rate prevails throughout the whole country. The principles which regulate the value or rent of building land are analogous to those which determine the rent of land devoted to agriculture. In the latter case rent is regulated by two circumstances, namely, fertility of soil, and convenience of situation. The latter is alone operative in determining the value of building land. As often remarked, each country possesses land varying greatly in productiveness. Some land yields a high rent; other land is so barren or so inconveniently situated that it yields only a nominal rent. In a similar way some land is so conveniently situated for building purposes that it possesses a monopoly value. Other land has so few advantages of situation that it is not more valuable for building than for agriculture. This land may be regarded as being on the margin of building; just in the same way as agricultural land, which only yields a nominal rent, is on the margin of cultivation. The rent which is paid for any building land is consequently com-

posed of two elements, viz. its agricultural value, and the value which arises from the superior convenience of the situation of this land when compared with land which is just on the margin of building.

The rent of a house is composed of two elements.

It is evident that the rent which is paid for any particular house partly represents the rent of the land upon which it is built, and partly a return upon the capital expended in building the house. The relative magnitude of these two elements which compose the rent of a house varies with its situation. If it possesses great convenience of situation, the land may be more valuable than the house which is built upon it. In ordinary cases, however, the rent which is paid for the ground is a very much smaller sum than the amount which represents a return for the outlay involved in building the house. Bearing this analysis in mind, it is evident that when rates are levied upon a house they may be regarded as partly levied upon the rent of the land upon which the house is built, and partly upon the profit annually yielded to the capital spent in building the house. That portion of the rates which is levied upon the rent of the land is a charge upon the landowner. The rent, as above shown, represents the price paid for convenience of situation; and if no rates were levied upon the occupiers, they could afford to pay a higher price for convenience of situation. This portion of the rate consequently subtracts so much from the value of a natural monopoly, and the charge falls with as much certainty on the landowner as when rates are levied upon agricultural land. The remaining portion of the rates, which is imposed upon the amount representing a return to the capital expended in building the house, is manifestly paid by the occupier. It cannot, as before said, have been paid by the builder, because, by the competition of capital, he must obtain the ordinary rate of profit upon his capital. In certain exceptional cases a portion of the rates may fall upon the owner of the house. Thus he would be injured if there were a local and not a general advance in rates. On the other hand he would undoubtedly secure some advantage if there were a reduction of rates in the particular locality in which his house happened to be situated. From this investigation it appears that, with the exception just alluded to, rates are really paid partly by the occupier

of the house, and partly by the owner of the land upon which the house is built. It therefore follows that when houses are built in ordinary situations the greater portion of the rates falls upon the occupier. But when houses are erected upon sites which possess great value from their situation, a considerable portion of the rates is a charge upon the owner of the land.

The conclusions just arrived at must be somewhat modified, if it is assumed that rates vary in different districts of the same locality. Suppose houses of the same character are built in two adjoining parishes upon land which possesses equal convenience of situation, and that the rates are much higher in the one parish than in the other. The difference in the rates prevailing in the two parishes will be a charge upon the land. In such a case the difference in rates may be considered as one of the elements upon which convenience of situation depends; therefore, the parish in which high rates prevail may be really regarded as less conveniently situated than the adjoining parish; consequently the land in the former parish will yield for building purposes a smaller rent: in fact the difference between the rent paid in one parish and that paid in the other must be equivalent to the difference in the rates. It therefore appears that the portion of rates borne by the owners of the land on which houses are built is in certain cases increased, when the rates prevailing throughout the locality are not uniform.

The social effects of the poor-law.

Although it is very desirable that poor rates should be levied with as much justice as possible, yet the subject of parochial relief is even more important in its social than in its financial aspects. A State cannot confer upon every one a legal right to be supported, without producing a great influence upon the national character; the extent and nature of this influence we will proceed to investigate. There are few who can have failed to observe, that a considerable number who obtain parochial relief have either brought poverty on themselves by improvidence and intemperance, or have not taken proper precautions to ward it off. Poor rates never reward the industrious; in fact, relief is almost forbidden to those who have done something to help themselves. Two individuals, Robinson and Smith, are fellow-workmen, earning the same wages, and

each of them has a family to maintain. Robinson is thrifty, and is resolved not to be dependent upon others. Through careful saving, he sets aside enough to purchase a small annuity, upon which he maintains himself when he is too old to work. Smith is a very different man, he lives recklessly, never thinks of the morrow, is a frequenter of the public-house, and, never having saved a shilling, finds himself penniless in his old age; he therefore claims support from his parish; possibly three or four shillings each week is granted to him in the form of outdoor relief. Robinson never gets a farthing from the rates. A shilling or two a week, added to the small annuity which he has obtained by the exercise of self-denial, would give him much additional comfort and happiness; but if he ventured to make such an application for assistance, the parochial authorities would say, 'You are the possessor of an annuity, which though small, is sufficient to keep you from starvation, and we cannot grant you a farthing from the rates.' He might reply, 'My neighbour Smith, who had in past years the same opportunity of saving as I have had, is receiving each week three shillings from the parish, and I only ask for one shilling.' The parochial authorities would rejoin, 'You, Robinson, have been so prudent that you can just manage to live without any assistance from us, and therefore we shall give you nothing; your neighbour Smith has been so intemperate and so improvident that we shall support him until he dies.'

Prudential habits are discouraged.

Cases analogous to the one just described are of daily occurrence; in fact, they denote a leading characteristic of our poor-law system. Thousands, consequently, in whom it is most important to promote prudential habits, are discouraged from making any self-sacrifice, when they observe that the parish does nothing for the industrious, whereas it creates a refuge and an asylum for those who have spent their resources improvidently, or who have wasted their substance in drink. But the injustice of the system does not stop here. The working man often finds that the small savings which he has accumulated with so much difficulty are taxed and rated in order to provide support to those who are reckless and unthrifty. He might, for instance, justly say—'Is it not

unjust that I should have to pay this money? Many of those who are supported by rates ought to have been better off than I am. There is a neighbour of mine who, although too old for work, has to support a large young family, because he married a second time when advanced in life. This man will soon have to go upon the parish, and is it not hard that I should be taxed in order to maintain one who commits such an act of reckless folly?' Such sentiments as these not only command sympathy, but deserve most careful attention. It may, perhaps, be thought that out-door relief is so scanty, and life in the workhouse is so much dreaded, that those who become paupers really sink into this condition from circumstances which they cannot control. Some there are, no doubt, whose wages are too small to enable them to make any adequate provision against old age or sickness. Others are reduced to poverty by unforeseen and unavoidable accidents; and those who impoverish themselves are usually made intemperate and improvident by the force of early associations, and by defective education. But admitting the truth of all this, the question still remains, 'What influence have the poor-laws in making the remuneration of some labourers so small that they cannot save sufficient to provide a maintenance for themselves in old age?' Our system of parochial relief may exert a most pernicious influence upon a man's character, although at the time when he is making an improvident marriage, or is living intemperately, he does not calculate the assistance he may derive from the rates.

Influence of parochial relief in depressing wages.

Our agricultural labourers afford a melancholy example of wages being so small that saving is rendered almost impossible. A married man with only 10*s.* a week is insufficiently provided with many of the necessaries of life, and if he attempted to save, he would have to deprive himself or his family of either food, fuel, or clothing, which they urgently require. But it has been previously remarked that the vicious system of granting parochial relief which formerly prevailed in the rural districts, has done much to reduce the agricultural labourers to their present low condition. Improvident marriages were encouraged, over population resulted, wages were reduced, and the people were thus gradually accustomed to submit

to a low standard of material comfort. The improvidence has continued after many of the agencies which originally promoted it have been modified. Children imitate the example of parents, and the habits of imprudence which were fostered by the allowance system remain, although that system has ceased to operate. The helplessness and the dependence which are such characteristic faults of our rural population have been inherited from those times when men were taught to rely more upon the parish than upon their own efforts. If the Dorsetshire labourer had more spirit and more self-reliance, he would soon insure an advance in his wages. He would not consent to drag out a miserable existence on 10*s.* a week, when he could obtain for the same kind of work in Yorkshire or in Lancashire forty or fifty per cent. more. If he had a little more knowledge and a little more enterprise, he would at once decide to emigrate if he could not live in adequate comfort in his own country.

Ought parochial relief to be abolished?

Believing as we do that the poor-laws have not only exerted a most baneful influence in the past, but are also at the present time offering a most serious encouragement to improvidence, the question may be asked, 'Would it be wise and just to abolish the legal claim to be maintained which every one now has?' To this question it may at once be replied, that it would be neither wise nor just to introduce such a fundamental change precipitately. The country ought to have due warning, so that adequate preparations might be made to meet the new state of things. The abolition of parochial relief ought to be carried out gradually, and should form a part of a comprehensive scheme of social and economic reform. The condition of the people is made what it is by the operation of a great variety of agencies, which act and react upon each other; it is this which makes it so necessary that our statesmen should rely upon systematic and not upon isolated measures. To show how intimate is the connection between various social agencies, it may be sufficient to remark that ignorance is one chief cause of poverty, and that poverty exerts a powerful influence in making the education of the people defective. As another illustration we may

refer to the fact that parochial relief has done much to lower the condition of the people, and until their condition is raised, they cannot do without this relief. It would, therefore, be unwise to abolish parochial relief until agencies have been brought into operation to elevate the social condition of the country. If, for instance, it is assumed that the State will in future permit large sections of our population to grow up in ignorance, the abolition of parochial relief will, under such circumstances, be rendered impracticable. Those who are sunk in ignorance will not, as a general rule, be sufficiently provident to render themselves independent of extraneous support: for thrift and foresight imply a certain amount of moral development which rarely exists in the absence of mental cultivation. It is therefore hopeless to expect that our poor-laws can be abolished until one generation has been brought under the influence of a comprehensive system of national education.

It is well that people should, as soon as possible, be accustomed to the idea that manifold evils result from the claim which is now possessed to demand maintenance as a legal right; the abolition of this right ought therefore to be anticipated as a more than probable contingency. Unless some such warning as this is given, adequate preparations will never be made to meet the new state of things. Every man neglects a clear and important duty if he does not, in the absence of other means of subsistence, use every effort to support himself and his family by his own labour. It may be objected that many who are sincerely anxious to discharge this duty have not the requisite means; wages are too low, employment is too uncertain, the cost of living is so great, that men even in the vigour of life find that they have nothing to spare: how then is it possible to make a provision for old age, for sickness, or for various casual misfortunes which are liable to arise from financial panics and depressed trade? But those who raise these objections should remember that vast numbers who, at the present time, do not save, could save if they had the inclination to do so. Millions are annually spent, not in the purchase of a reasonable quantity of wholesome beer, but in excessive drinking. A man who works hard may be benefited by a glass of sound beer, but nearly the whole of

The amount spent by the poor in spirits shows that they have the power to save.

the vast amount which is expended in spirits is money worse than wasted. If one half of the outlay thus incurred by working-men were each year set aside to purchase annuities, and if the other half were devoted to life insurance, no inconsiderable proportion of our industrial population would be able to procure a comfortable competence in old age, and would leave behind them an adequate amount to maintain their widows and others who may be dependent upon them.

The economic and social condition of England ought to be regarded as radically unsound and unsatisfactory until it becomes the custom, and not, as it is now, the exception, for working men to insure their lives, and to provide themselves with annuities for their old age. The acquisition of these habits of prudence is discouraged not only by the whole tone of public opinion, but also by the sentiments of professed moralists. Those who aspire to be popular, and are anxious to be thought good, are never tired of proclaiming that every man has a right to live, and that the State ought to find work for those who need employment. Sympathy, moreover, is ever readily extended to those who are said to be so unfortunate that they have a wife and a numerous family without anything to keep them upon. Whilst such doctrines as these obtain acceptance, wages must remain low, and pauperism will continue to afflict the land. Those who say that the State ought to find work for all who need it, should inquire from what source the State will obtain the wages to pay all those who may demand employment? The State has not inexhaustible coffers, which are kept ever full by the bounty of nature, and from which riches spontaneously flow, as from a perennial fountain. Every shilling which the State expends represents considerably more than a shilling taken from the aggregate body of tax-payers who compose the nation. It is an old saying, that taxes keep out of the pockets of the people far more than they yield to the national exchequer. It, therefore, would probably be necessary to diminish the wealth of the nation by at least 6,000,000*l.*, in order to obtain 5,000,000*l.*, as a capital wherewith to employ State labourers. Can it be supposed that capital procured in this costly way would return the ordinary rate of profit? A private business carried on

The State ought not to guarantee employment.

under these conditions would inevitably fail. Governments have hitherto proved themselves to be the most wasteful and unsuccessful traders. Labourers would apply to the State for work, when individual capitalists could not employ them profitably; but, if this were the case, how much less profitably could they be employed when under the comparatively irresponsible and incompetent supervision of some Government department! If the plan of giving work to all applicants were fully carried out, our industrial population would lose self-respect, and soon become demoralised; many of them would cease to attribute any consequence to a dismissal from an employer's service, for they would feel that they could always fall back upon the State. Under existing circumstances it behoves every one carefully to consider the particular nature of his own trade; in those employments which are precarious, higher wages are paid, and a portion of these extra wages ought to be set aside as a reserve fund. But what need would there be for this prudence if each individual could demand work from the State immediately his trade became temporarily depressed? It no doubt seems hard that men who are anxious to work should be compelled to remain idle. But sometimes it is necessary to act with apparent harshness, in order to prevent in the future the existence of an increased amount of human suffering. It would be well if it were more frequeutly remembered that the functions which the statesman has to discharge to society are often analogous to those which the physician fulfils to the individual. A surgeon who, in order to save a patient some temporary pain, hesitates to remove a source of future suffering, does not deserve to be praised as a kind man, but ought to be severely censured. In the same way it is equally true that a statesman who, from a sentiment of mistaken kindness, does not strive to check, but rather encourages the causes which produce such a social evil as pauperism, is really an enemy to mankind, although his intentions may be good and his motives excellent. Thus it would be an agreeable act of generosity to give work to all who needed it; but it is our duty firmly to resist such a policy, because it would ultimately intensify and augment the evils which in the first instance it alleviated. Men seek employment from the State when

they cannot obtain it from private individuals; or, in other words, the State is appealed to when the supply of labour exceeds the demand. The State would be justified in granting this aid if, by its agency, the supply would be ultimately equalised to the demand; but such Government intervention, instead of creating this equilibrium, would in a few years widen the difference between the supply and the demand. People who cannot obtain work will very probably emigrate, and in this way a portion of the surplus labour will be drafted off. Again, those who are unemployed cannot afford to marry; statistics, in fact, conclusively prove that the number of marriages varies with the prosperity of the labouring class. The supply of labour would continue permanently to exceed the demand for it, if the State undertook to find employment for all applicants; the two sources of relief would be checked; emigration would be discouraged, and population, instead of being restrained, would be stimulated.

Government intervention even during the cotton famine was not permanently beneficial.

Some who agree with the observations which have just been made may be inclined to think that the Government ought to find employment in times of occasional depression. Few would presume to assert that in no case would such a policy be justifiable: our object is rather to show that the cases which warrant such Government interference are much less frequent than is usually supposed. Lancashire, during the cotton famine, will be very probably considered to present a case in which the advantages of Government intervention can scarcely be disputed; but there are some considerations which ought to make us pause before we conclude that the Lancashire operatives derived any permanent benefit from the pecuniary assistance which the Government rendered them. It must be remembered that, during the American civil war, there was no marked decrease in the aggregate production of manufactured goods throughout the United Kingdom. What was lost by Lancashire was to a great extent gained by other localities; the woollen, the worsted, the jute, and the linen trades became unusually prosperous; Leeds, Bradford, Dundee, Belfast, and other towns rapidly advanced in wealth. If, therefore, affairs had been permitted to take a more natural course, a great number of the unemployed Lancashire operatives would have migrated to these locali-

ties, where their labour was particularly required. As it was, the loans obtained from Government encouraged these operatives to remain in their own county in a state of semi-starvation. The mischief thus done still continues. Lancashire has now more labour than she needs. Manufacturers assert that there is an over-production, and, in order to check it, they have decided to work their mills on short time. It therefore appears that the policy that was pursued not only increased the sufferings of the people during the cotton crisis, but still impedes the return of prosperity.

It must moreover be borne in mind that each time the Government interferes, an influence is brought into operation which makes the people rely less upon their own efforts. It is now most painful to observe, that immediately any adverse circumstance occurs, our artizans have no reserve fund to fall back upon. England's condition cannot be satisfactory while so large a proportion of the working classes literally live from hand to mouth.

It would often be necessary to travel many miles before an agricultural labourer could be found who had saved even a few shillings; but it appears that others besides our worst-paid labourers are living in this precarious way. Paragraphs have lately appeared in the newspapers, stating that London builders, in consequence of depressed trade, were obliged to discharge many of their hands; within three days these men were parading the streets, and were asking the public to relieve their dire necessities. Misfortunes may sometimes happen, so overwhelming and so unforeseen, that those who are overtaken by them ought either to be helped by the Government or assisted by private charity. But everything ought to be done to make the people feel that they must expect such assistance only in the most exceptional cases.

Influence of private charity.

Private charity frequently produces a more demoralizing effect than bounties obtained from the State; those who have money to spare find it far more agreeable to give some of it away than to take the trouble carefully to investigate the purposes to which it is devoted. A man, for instance, by subscribing 1000*l.* to some charitable society, eases his conscience, and enjoys the pleasure of seeing his act of benevolence widely advertised. If our charitable institutions were

closely scrutinised, few of them would be found to obey the maxim that those alone ought to be helped who have striven to rely upon self-help. It often happens that the most hypocritical obtain the largest share of private benefactions; those who are too independent to beg frequently remain unaided and unnoticed. It also usually occurs that the most earnest appeals for assistance are made on behalf of those who have committed some wilful act of improvidence. There is no one, for instance, who is supposed to have so strong a claim upon public sympathy as a clergyman, who has to maintain a wife and a very large family upon an annual income of 100*l.* Those who exert themselves to assist such a man virtually give a bribe to improvidence. If a more healthy tone of public opinion prevailed, society, instead of rewarding, would most severely condemn a man who brings children into the world without the means of adequately maintaining them.

It has been lately shown in a very able pamphlet by Dr. Hawkesley, that the amount annually given away in charity in London is more than 5,000,000*l.* Scarcely any part of this sum rewards the frugal and the industrious; by far the largest portion of it, by being bestowed upon the improvident, exerts a direct tendency to increase and perpetuate poverty.

The wastefulness of charitable societies. Investigation by the "Times".

At the beginning of the present year, the proprietors of the *Times* newspaper* rendered a most signal service to the public by publishing a synopsis of a great number of London charities. Mr. Hicks, who so ably conducted this investigation, carefully examined the accounts of some charities whose combined income exceeds 2,000,000*l.* annually. Some of the facts he discloses are extremely startling. The accounts of many charitable societies are so loosely kept that they are absolutely worthless, and, in many cases, a great portion of the amount annually subscribed is expended in agency and in the cost of collection. The *Times* significantly remarks: "It must be considered, in fact, condemnatory of the whole system, that a quarter of the contributions of the public should be swallowed up in agency. The charity of the public is seen flowing on all sides, but there is no reservoir, no regular channel.

* The *Times*, February 11, 1869.

The stream is dissipated in little rivulets, and wasted in innumerable small conduits."

Not a few of those who give money for charitable purposes are desirous to secure some posthumous fame. They therefore decree that, for all time to come, a sum of money shall be annually applied in some particular way with which their names shall be associated. The conditions which are imposed upon those who obtain these benefactions often exhibit the strangest freaks of folly, vanity, and superstition; old men and women receive a certain quantity of bread or money if they attend church regularly; thus tempted, poor, decrepit creatures, in the most inclement weather, drag their weary limbs to church, and sit shivering through a long service, though often they may be too deaf to hear a single word that is spoken. Some unknown person supposes that his name will be handed down to posterity as a good and pious man, because he compels people to go through this cruel farce. Sometimes almshouses are built, and, in these, men are supported who have been too improvident to save; and in other cases a maintenance is given to widows whose husbands have been too imprudent or too self-indulgent to insure their lives. Where there is one successful applicant for this kind of relief, there are probably scores who are unsuccessful, and these live in a miserable state of suspense. The most shameful jobbery has often has been associated with the administration of these endowments; sometimes the trustees of charities have granted favourable leases to their friends and relations; sometimes a more petty kind of meanness has been practised;—an influential person has secured a charity for some old servant who, by rendering his master a long life of faithful service, ought to have had the strongest claims upon his private generosity. Many of these abuses have been corrected since the Charity Commissioners were appointed in 1853; but there are many grievances still remaining unredressed, and the greatest advantage would result from investigating all the charities of the kingdom, with a view of organising them according to some systematic plan.

Charitable endowments might be devoted to education.

In numerous instances, primary and secondary schools might be supported by consolidating benefactions, which now often produce far more mischief than good. The carry-

ing out of such a policy would moreover be a practical adoption of the important principle, that no one should be permitted to decide the particular purposes to which property should be permanently devoted. When land or money is bequeathed to private individuals, a control cannot be exercised over it for more than two generations. Thus an estate may be disposed of by will to any number of living persons, and for twenty one years after the death of the survivor; but if it were attempted to arrange the disposal of the property for a longer period, the bequest would become illegal, and therefore void. There can be no valid reason why people should have more control over property which they wish to appropriate to charitable purposes.

In the remarks which have just been made, there has been no intention to express any opposition to the exercise of charity. We have simple striven to show that gifts or bequests which are made from the kindest and most generous motives, if inconsiderately employed, often produce grave mischiefs. An individual is bound to consider carefully what will be the effects which will result from any charity which he may wish to dispense. Experience has shown that it is not always wise or safe to place implicit confidence in benevolent institutions. It ought also to be constantly borne in mind, that as it is impossible to foresee the social wants of the future, no attempt ought to be made to trammel posterity by devising rigid rules for the administration of a particular bequest.

The abuses which are associated with the administration of private charities may be thought to furnish a strong argument in favour of our poor-law system. It may, for instance, be said, that these and kindred abuses would be greatly intensified if poverty could obtain only casual and uncertain relief, derived from private benevolence. The clever beggar and the skilful impostor would thrive upon the alms of careless and credulous donors; whereas thousands who would not beg would die from starvation, unheeded and undiscovered. It must, however, be remembered that England is the only country in which a man can claim maintenance as a legal right. It would, perhaps, be unfair to make a comparison between England and new countries, such as the United States and Australia, which possess boundless tracts of unoccupied fertile land;

but turning to the Continent, it will be found that in France and in Prussia there are no poor-laws similar to our own, and these countries show that it is not necessary to have a poor-law to prevent wide-spread starvation. In London, in proportion to the population, as many people die from want and exposure as in Paris or Berlin. Moreover, in England we suffer from the evils which result both from private and parochial relief; for although we have most burdensome poor-rates, yet at the same time there is probably no country in which so much is annually spent in private charity. In spite of all which is thus done publicly and privately, pauperism has gone on steadily increasing, until it has at length become wholly unmanageable. When any extra strain is put upon our poor-law system it absolutely breaks down. When the Lancashire operatives were thrown out of employment during the American war, all the resources of parochial relief were exhausted in a few months; loans of money had to be obtained from the Government, and earnest appeals were made to the whole nation for assistance. At every returning Christmas the newspapers are filled with accounts of those who are suffering the horrors of starvation; the public is entreated to relieve cases of pressing necessity. Does not all this conclusively prove that our poor-law system fails to reach thousands who most need assistance? All these evils cannot be eradicated in a day; but we should at any rate attempt to introduce a new state of things when it is seen that the policy which is now pursued does not destroy or even check, but on the contrary stimulates, pauperism. As previously remarked, the change should be brought about gradually, for people who have been reared on the existing system of relief ought not at once to be subjected to an entirely different treatment.

Breakdown of the present poor-law system.

Without pretending fully to detail the new policy which ought to be adopted, it is not difficult to suggest some things which should be done. It has frequently been proved that a comprehensive scheme of national education would exert a most powerful influence in diminishing pauperism. It might also be shown that a similar influence would be exerted upon pauperism by the effect which will be produced on poverty by various other cir-

National education and other reforms would diminish pauperism.

cumstances; such as the improvement of the relations between capital and labour; the reform of the tenure of land; the reduction of taxation; the extension of free-trade; and the encouragement of emigration. Associated with the working of all these beneficial agencies, it is most important that some changes in our present poor-law system should be immediately carried out.

It is unnecessary to allude again to the great inequality in the present mode of levying the rates; enough has been already said upon the subject. It is now our intention to discuss some of the evils which are associated with the prevailing method of administering relief. Nothing demands more serious consideration than the vast and increasing amount which is spent in granting out-door relief. One of the most significant returns which has ever been issued from a Government department has lately been published by the Poor Law Board. From this it appears that the sum annually expended in London for out-door relief has increased 130 per cent. during the last nine years. If such a state of thing should continue, the resources of the metropolis will soon become exhausted by pauperism. Some attribute this increase of 130 per cent. to extravagant management. If this were the true explanation it would not be difficult to apply a remedy, but there are no facts to warrant the conclusion that poor-law guardians are less economical now than they were nine years since. This augmentation in out-door relief has been produced by causes much more serious in their consequences: the augmentation, in fact, proves that pauperism begets pauperism, if relief is administered in such a way as to encourage rather than to check improvidence. Out-door relief is now often given as a grant in aid of wages, and thus many of the evils of the allowance system are unconsciously revived under a somewhat different aspect: men do not now, as formerly, receive assistance from the rates when they are in full work, but if there should be any cessation of employment they immediately seek, and generally obtain, some assistance from the parish. In many kinds of labour it is necessary occasionally to suspend work; the wages which are paid in these employments represent, not only a remuneration for work which is actually done, but also a compensation for the time

Out-door relief ought to be greatly restricted.

when labour has to be suspended. The improvident spend week by week all that they receive, and they are encouraged to do so by the knowledge that the parish will assist them when employment ceases. In Ireland out-door relief is never granted, and this is a precedent which may probably be with great advantage followed in this country; but those who may not be prepared immediately to abolish out-door relief must recognise the importance of restricting it within the narrowest possible limits.

State Emigration is a doubtful and partial remedy for pauperism.

From time to time proposals have been made that we should resort to emigration, in order to free ourselves from pauperism. An Act was passed a few years since which confers upon Poor-Law guardians the power to pay from the rates the passage-money of those who may be willing to emigrate. This Act has hitherto been almost nugatory; it has, in fact, been applied only in three or four parishes. There are two very different aspects from which the subject of pauper emigration may be viewed: in the first place, a right may be conferred on every individual to demand the requisite means to enable him to emigrate; secondly, parochial authorities may have the power to compel an applicant for relief to emigrate. The only argument which can be urged against the last proposal is, that foreign countries may object to be made the receptacle of our pauperism; in fact the United States has already protested against it. Very cogent reasons can, however, be assigned against the adoption of the first proposal. Improvidence would be encouraged in all its worst forms if men could not only claim maintenance, but could also demand the payment of their passage-money, if they should desire to emigrate. The carrying out of such an arrangement would give additional encouragement to imprudent marriages and reckless living. Every man would feel that if he could not get on in his own country, he would be able to make others pay the expense of sending him and his family to any colony in which they might choose to settle. The number of applicants for emigration would go on steadily accumulating; the places of those who left would be quickly reoccupied, and the cost of carrying out this policy would rapidly augment. It is extremely probable that a great additional burden would be

cast upon the rates if people could claim to be sent abroad; for not only would improvidence be encouraged, but a considerable portion of our emigrants who now provide their own passage-money would compel parochial authorities to pay it.

Labourers can render themselves independent of parochial relief by

As we have frequently insisted upon the duty which is imposed upon every individual to provide as far as possible against old age and sickness, it is important to point out the best mode of securing such a provision. A man may protect himself and his family against all the casualties to which he can be ordinarily subject by joining friendly societies, by purchasing annuities, and by life insurance. In our country, the most important friendly societies are the trades'-unions; this fact is often completely ignored by those who regard trades'-unions as being necessarily associated with strikes. It could be shown that the objects which a friendly society has in view probably suggested the first formation of these combinations, and the

Trades' unions;

connection which now so often exists between trades'-unions and strikes is rather accidental than preconceived. A member of a trades'-union receives a certain weekly allowance when thrown out of work by depressed trade, and also when disabled by sickness or by accident. A trades'-unionist, as long as the funds of his society will permit, is to a great extent independent of parochial relief. It is an unknown occurrence for an able-bodied workman who belongs to a prosperous union, such as the "Amalgamated Engineers," to apply to the parish authorities for assistance. This emancipation from dependence upon rates has produced most beneficial effects, and it probably accounts for the fact which is admitted by the strongest opponents of trades'-unions, that our best and most intelligent workmen almost invariably belong to these societies.

Government Annuities

Though trades'-unions render a man independent of parochial assistance whilst he is an able-bodied labourer, something else is required to secure him a provision in old age. Far greater facilities for doing this exist since Mr. Gladstone passed his admirable scheme for the creation of small annuities. As yet these annuities have excited little attention, but when their advantages are fully appreciated they will be ranked as amongst the most beneficial measures which we owe to Mr. Gladstone. By the

deposit of a small weekly sum, a man is able to secure a certain income, to commence at a time of life when it may reasonably be calculated that work will have to be discontinued. A Government guarantee makes these annuities perfectly secure. This feeling of absolute security will powerfully stimulate prudential habits on the part of working men. One chief reason why, as a class, they have not saved, has been the difficulty they have had in finding safe and suitable investments. There have been repeated exposures of shameful dishonesty practised by those who have been the concoctors of societies for granting small annuities: one instance of such dishonesty produces a wide-spread influence in encouraging improvidence; for people will think that they might as well spend all that they have, when they observe that some friend or neighbour has lost all that has been put together through many years of careful saving. It therefore appears that by subscribing to friendly societies, and by the purchase of an annuity, every working man may make himself independent of parochial relief. If he insures his life, he then secures a provision for his wife and family in the event of his dying prematurely. There must, however, be a fundamental change in the condition of our industrial population before they acquire not only the means but also the inclination to set aside a sufficient sum from their weekly earnings to make all those provisions which have been just described.

and life Insurance.

It may be proved from simple economic considerations that the power to save possessed by the working-classes increases in a direct ratio with their desire to save. The remuneration which labour receives varies directly with the amount of capital accumulated, and inversely with the number of the labouring population. Capital is the fund from which wages are paid; if, therefore, this fund increases, whilst population remains stationary, it is evident that there will be a greater demand for labour, and, consequently, it will obtain a larger remuneration. On the contrary the wages of labour will diminish, if the number of the labouring population increases in a faster ratio than capital. People who are accustomed to a comparatively high standard of comfort naturally feel a disinclination to sacrifice it by improvident marriages. A professional man

Prudential habits promote high wages.

does not, for instance, as a general rule, marry, until he feels that he has a reasonable chance of being able to give his children at least as good an education, and also as many comforts, as he has himself enjoyed. But these prudential restraints exert much less influence upon those who are so poor that they feel they have little to sacrifice. It is notorious that the Irish peasantry, when sunk in the depths of poverty, married with utter recklessness. The Irish cottier was always hopelessly in debt to his landlord; he therefore knew that having a large family to maintain could make him no poorer, for just sufficient potatoes must be left to enable him and his children to live. Many of our poorest labourers are nearly as improvident as the Irish; prudential considerations never restrain them from marrying: their material condition is such that they feel they have nothing to lose, and their life being devoid of hope, they think they have nothing to sacrifice in the future. It is impossible for those who act in this manner to achieve any material advance. The pressure of population must reduce their wages to a minimum, and hence there is always a large class who are receiving only just sufficient wages to provide them with a bare subsistence. The great end to be attained is to raise the condition of one generation so much as to make them feel that they possess something which is worth preserving, and which therefore they will not sacrifice by improvidence. If our labouring population should advance to a much higher standard of living, they would be as anxious as professional men now are that their children should not sink to a lower position. When such prudential considerations as these become prevalent, working-men would be anxious to protect themselves and their families against such casualties as sickness, loss of employment, and premature death, by subscribing to friendly societies, by purchasing annuities, and by life insurance.

The influence of improvident marriages.

Injury inflicted on prudent labourers by parochial relief.

Labourers who desire to advance their condition must constantly find their progress impeded by our poor-law system. Not only do parochial rates press heavily upon them, but the relief which is given to pauperism acts most powerfully to reduce wages. Improvidence is encouraged by the assistance which is given to poverty, and improvidence is the main cause why wages are low. It

often, also, happens that pauper labour comes into direct competition with free labour. As an illustration it may be mentioned that the Manchester guardians have lately made able-bodied paupers grind corn by hand. Let us see what this plan, which has been almost unanimously approved, really involves. A tax is imposed upon the industrial population of Manchester; a portion of the proceeds of this tax is appropriated to employ labour in a most costly, unproductive, and wasteful way. Labour which is reluctantly given can never be efficient, and these paupers who grind corn by hand are doing that which could be done far cheaper and far better by machinery. The granting of relief to able-bodied labourers is conclusively condemned when we are obliged to admit that there is no better mode of employing them than that which has been adopted by the Manchester guardians.

There is only one other subject to which allusion need be made before concluding this chapter. One fruitful source of pauperism is the position which women occupy in this country. Social customs and legal enactments combine to discourage women of every class from earning their own livelihoods. The influences which deter women from supporting themselves assume various forms. Women in the upper and middle classes are told that if they attempt to employ their labour productively they unsex themselves and destroy those graces and charms which peculiarly fit them for married life. Those women who wish to support themselves by manual labour often meet with a different kind of opposition; sometimes they are impeded by the rules of trades'-unions; sometimes they find that laws have been passed prohibiting them from certain kinds of work. This opposition, though exhibited in various forms, is probably mainly due to the selfishness of the stronger sex. Women should have the same opportunity as men to follow any profession, trade, or employment to which they desire to devote their energies. Our law gives such inadequate protection to the property of a married woman that her earnings may be taken from her almost with impunity by a cruel and profligate husband. It is difficult for industry to struggle against a combination of such unfavourable circumstances; it is not, therefore, surprising that women's labour, thus

Pauperism is encouraged by the present position of women.

degraded, is poorly remunerated, and that comparatively few women are competent to earn their own livings by manual labour. As long as women remain in this state of comparative helplessness, it is evident that they will frequently depend for support upon parochial relief. It is now, in fact, almost assumed as a matter of course, that upon the death of a labouring man his widow immediately comes upon the parish; yet, in spite of this melancholy fact, proposals are frequently made that Parliament should impose further restrictions upon the employment of women. If it is found that the women engaged in any particular kind of work are in an unsatisfactory condition, some well-intentioned persons instantly suggest that this work should be forbidden to them by law. There is scarcely any labour which is necessarily degrading. At any rate, a life of dependent pauperism must be far more pernicious than honest industry. It has been repeatedly shown that women need not suffer any injury from work which is supposed to be degrading in its influence. No one, for instance, can deny that in many parts of England the women who are employed in agriculture are in a most unsatisfactory condition; their wages are extremely small; they are poorly and unsuitably clothed, and often, driven into the fields by the pressure of poverty, they work when they ought to be attending to home duties. Many who observe these evils are anxious that Parliament should prohibit the employment of women in agriculture; but if the labour is differently carried on, it is proved that women suffer no evils, but are benefited by working in the fields.

State interference with women's labour is unjust.

Mr. Henley, one of the Commissioners recently appointed to inquire into the condition of people employed in agriculture, has given a most interesting account of the rural population of Northumberland. When his description of these Northumberland labourers is compared with the distressing accounts which are given of the peasantry in other parts of England, it is difficult to believe that the Dorsetshire and Northumberland labourers are inhabitants of the same country. The latter earn good wages; they live well but frugally; fuel is cheap; and their houses are clean and commodious. At particular seasons of the year the women of the family work in the fields; but home

duties are never neglected. The women being well and suitably clothed, their outdoor labour is beneficial to them, for they generally appear in the most robust health. Their close contiguity to Scotland seems to have given these peasants a certain enthusiasm for education. Good schools are abundant, and the children are generally kept at them until they are twelve or thirteen years of age. Facts such as these should make us hesitate before we sanction any measure which would compel women to be even more dependent than they now are upon parochial relief.

One of the chief objects of this chapter is to prove that a great number of agencies must be simultaneously brought into operation in order to produce a marked diminution in pauperism. The problem which should be constantly kept in view is this—How can the condition of at least one generation be so distinctly improved that the people will themselves recognise the advance which they have secured, and consequently refuse by improvidence or by any other act to descend to their former condition?

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